

As confidentially submitted to the Securities and Exchange Commission on August 6, 2021.
This amendment no. 1 to the draft registration statement has not been publicly filed with the Securities and Exchange Commission and all information herein remains strictly confidential.

File No.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

Kyndryl Holdings, LLC

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

86-1185492

(IRS employer identification number)

**One New Orchard Road
Armonk, New York**

(Address of principal executive offices)

10504

(Zip Code)

914-499-1900

(Registrant's telephone number)

Securities to be registered pursuant to Section 12(b) of the Act:

| Title of each class to be so registered | Name of each exchange on which each class is to be registered |
|--|---|
| Common stock, par value \$0.01 per share | [] |

Securities to be registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

KYNDRYL HOLDINGS, LLC
INFORMATION REQUIRED IN REGISTRATION STATEMENT
CROSS-REFERENCE SHEET BETWEEN INFORMATION STATEMENT
AND ITEMS OF FORM 10

This Registration Statement on Form 10 incorporates by reference information contained in the information statement filed herewith as Exhibit 99.1.

Item 1. *Business.*

The information required by this item is contained under the sections of the information statement entitled “Information Statement Summary,” “The Separation and Distribution,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” “Certain Relationships and Related Party Transactions” and “Where You Can Find More Information.” Those sections are incorporated herein by reference.

Item 1A. *Risk Factors.*

The information required by this item is contained under the sections of the information statement entitled “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements.” Those sections are incorporated herein by reference.

Item 2. *Financial Information.*

The information required by this item is contained under the sections of the information statement entitled “Capitalization,” “Unaudited Pro Forma Condensed Combined Financial Statements,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Index to Combined Financial Statements” and the financial statements referenced therein. Those sections are incorporated herein by reference.

Item 3. *Properties.*

The information required by this item is contained under the section of the information statement entitled “Business — Properties.” That section is incorporated herein by reference.

Item 4. *Security Ownership of Certain Beneficial Owners and Management.*

The information required by this item is contained under the section of the information statement entitled “Security Ownership of Certain Beneficial Owners and Management.” That section is incorporated herein by reference.

Item 5. *Directors and Executive Officers.*

The information required by this item is contained under the section of the information statement entitled “Management.” That section is incorporated herein by reference.

Item 6. *Executive Compensation.*

The information required by this item is contained under the sections of the information statement entitled “Director Compensation,” “Compensation Discussion and Analysis.” Those sections are incorporated herein by reference.

Item 7. *Certain Relationships and Related Transactions, and Director Independence.*

The information required by this item is contained under the sections of the information statement entitled “Management” and “Certain Relationships and Related Party Transactions.” Those sections are incorporated herein by reference.

Item 8. *Legal Proceedings.*

The information required by this item is contained under the section of the information statement entitled “Business — Legal Proceedings.” That section is incorporated herein by reference.

Item 9. *Market Price of, and Dividends on, the Registrant’s Common Equity and Related Stockholder Matters.*

The information required by this item is contained under the sections of the information statement entitled “Dividend Policy,” “Capitalization,” “The Spin-Off” and “Description of Our Capital Stock.” Those sections are incorporated herein by reference.

Item 10. *Recent Sales of Unregistered Securities.*

The information required by this item is contained under the section of the information statement entitled “Description of Our Capital Stock — Sale of Unregistered Securities.” That section is incorporated herein by reference.

Item 11. *Description of Registrant’s Securities to Be Registered.*

The information required by this item is contained under the sections of the information statement entitled “Dividend Policy,” “The Spin-Off” and “Description of Our Capital Stock.” Those sections are incorporated herein by reference.

Item 12. *Indemnification of Directors and Officers.*

The information required by this item is contained under the section of the information statement entitled “Description of Our Capital Stock — Limitation on Liability of Directors and Indemnification of Directors and Officers.” That section is incorporated herein by reference.

Item 13. *Financial Statements and Supplementary Data.*

The information required by this item is contained under the sections of the information statement entitled “Unaudited Pro Forma Combined Financial Statements,” “Index to Combined Financial Statements” and the financial statements referenced therein. Those sections are incorporated herein by reference.

Item 14. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.*

None.

Item 15. *Financial Statements and Exhibits.*

(a) *Financial Statements*

The information required by this item is contained under the sections of the information statement entitled “Unaudited Pro Forma Condensed Combined Financial Statements” and “Index to Combined Financial Statements” and the financial statements referenced therein. Those sections are incorporated herein by reference.

(b) Exhibits

The following documents are filed as exhibits hereto:

| Exhibit Number | Exhibit Description |
|-----------------------|---|
| 2.1 | Form of Separation and Distribution Agreement, by and between International Business Machines Corporation and the registrant* |
| 3.1 | Form of Amended and Restated Certificate of Incorporation of the registrant |
| 3.2 | Form of Amended and Restated Bylaws of the registrant |
| 10.1 | Form of Transition Services Agreement, by and between International Business Machines Corporation and the registrant* |
| 10.2 | Form of Tax Matters Agreement, by and between International Business Machines Corporation and the registrant* |
| 10.3 | Form of Employee Matters Agreement, by and between International Business Machines Corporation and the registrant* |
| 10.4 | Form of Intellectual Property Agreement, by and between International Business Machines Corporation and Kyndryl, Inc.* |
| 10.5 | Form of Kyndryl 2021 Long-Term Performance Plan* |
| 10.6 | Offer Letter by and between International Business Machines Corporation and Martin Schroeter, dated January 2, 2021, the LTPP performance share unit award agreement, dated February 1, 2021, and the related terms and conditions document, effective December 15, 2020 |
| 10.7 | Offer Letter by and between International Business Machines Corporation and Elly Keinan, dated March 1, 2021, the LTPP performance share unit award agreement, dated April 1, 2021, and the related terms and conditions document, effective March 1, 2021, and the Executive Sign-on Repayment Agreement |
| 10.8 | Offer Letter by and between International Business Machines Corporation and Maryjo Charbonnier, dated May 28, 2021, the LTPP performance share unit award agreement, dated April 1, 2021, and the related terms and conditions document, effective March 1, 2021, the LTPP retention restricted stock unit award agreement, dated August 1, 2021, and the related terms and conditions document, effective June 1, 2020, and the Executive Sign-on Repayment Agreement* |
| 21.1 | Subsidiaries of the registrant* |
| 99.1 | Preliminary Information Statement |

* To be filed by amendment.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

KYNDRYL HOLDINGS, LLC

By: _____

Name:

Title:

Date: _____, 2021

**AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF KYNDRYL HOLDINGS, INC.**

The undersigned incorporator, in order to form a corporation under the General Corporation Law of the State of Delaware (the “DGCL”), certifies as follows:

FIRST: The present name of the corporation is Kyndryl Holdings, Inc. (the “Corporation”). The Corporation was incorporated under the name “IBM Ocean US, Inc.” by the filing of its original Certificate of Incorporation with the Office of the Secretary of State of the State of Delaware on December 4, 2020 (the “Original Certificate of Incorporation”).

SECOND: This Amended and Restated Certificate of Incorporation (this “Certificate of Incorporation”), which restates and integrates and also further amends the provisions of the Corporation’s Original Certificate of Incorporation, as amended, was duly adopted in accordance with the provisions of Sections 242 and 245 of the DGCL and by the written consent of its stockholders in accordance with Section 228 of the DGCL.

THIRD: The Corporation’s Original Certificate of Incorporation, as heretofore amended, is hereby amended, integrated and restated to read in its entirety as follows:

ARTICLE I

Name

The name of the corporation is Kyndryl Holdings, Inc. (the “Corporation”).

ARTICLE II

Address; Registered Office and Agent

The address of the Corporation’s registered office in the State of Delaware is [●].

ARTICLE III

Purposes

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

ARTICLE IV

Capital Stock

4.1 **Authorized Stock.** The total number of shares of all classes of stock that the Corporation shall have authority to issue is [_____] shares, divided into (a) [_____] shares of Common Stock, with the par value of \$0.01 per share (the “Common Stock”), and (b) [_____] shares of Preferred Stock, with the par value of \$0.01 per share (the “Preferred Stock”). The authorized number of shares of any class or series of stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of the stock of the Corporation entitled to vote, and no separate vote of such class or series of stock the authorized number of which is to be increased or decreased shall be necessary to effect such change.

The Board (as defined below) is hereby authorized, by resolution or resolutions thereof, to provide, out of the unissued shares of Preferred Stock, for one or more series of Preferred Stock and, with respect to each such series, to fix the number of shares constituting such series and the designations, powers, preferences, rights, qualifications, limitations and restrictions in respect of the shares of such series. The powers, designations, preferences and relative, participating, optional or other rights of each series of Preferred Stock, and the qualifications, limitations or restrictions thereof, may differ from those of any and all other series at any time outstanding.

4.2 Voting. Except as may otherwise be provided in this Certificate of Incorporation or by applicable law, each holder of Common Stock, as such, shall be entitled to one vote for each share of Common Stock held of record by such holder on all matters on which stockholders generally are entitled to vote. Except as may otherwise be provided in this Certificate of Incorporation (including any certificate filed with the Office of the Secretary of State of the State of Delaware establishing the terms of a series of Preferred Stock in accordance with the second paragraph of Section 4.1 (such certificate, a "Preferred Stock Designation")) or by applicable law, no holder of any series of Preferred Stock, as such, shall be entitled to any voting powers in respect thereof.

4.3 Dividends. Subject to applicable law and the rights, if any, of the holders of any outstanding series of Preferred Stock, dividends may be declared and paid on the Common Stock out of funds legally available therefor at such times and in such amounts as the Board in its discretion shall determine;

4.4 Dissolution, Liquidation or Winding Up. Upon the dissolution, liquidation or winding up of the Corporation, subject to the rights, if any, of the holders of any outstanding series of Preferred Stock, the holders of the Common Stock shall be entitled to receive the assets of the Corporation available for distribution to its stockholders ratably in proportion to the number of shares of Common Stock held by them.

4.5 No Stockholder Actions by Written Consent. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

4.6 Special Meetings. Special meetings of stockholders of the Corporation may only be called by the Chair of the Board of Directors or the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors (the entire Board of Directors being the total number of authorized directors, whether or not there exist any vacancies or unfilled previously authorized directorships) or as otherwise provided in the Bylaws of the Corporation (the "Bylaws").

ARTICLE V

Board of Directors

5.1 **General.** The business and affairs of the Corporation shall be managed by, or under the direction of, the Board of Directors (the "Board"). Except as otherwise provided for or fixed pursuant to the terms of any Preferred Stock Designation relating to the rights of the holders of any series of Preferred Stock to elect additional directors, the total number of directors constituting the entire Board shall be not less than 6 nor more than 20, with the then-authorized number of directors being fixed from time to time by the Board. Unless and except to the extent that the Bylaws shall so require, the election of directors need not be by written ballot.

5.2 **Classified Board.** The Board (other than those directors elected by the holders of any series of Preferred Stock pursuant to the terms of any Preferred Stock Designation (the "Preferred Stock Directors")) shall be divided into three classes, as nearly equal in number as possible, designated Class I, Class II and Class III. If the number of directors has changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class. The initial assignment of directors to each such class shall be made by the Board of Directors. The term of office of the initial Class I directors shall expire at the 2022 annual meeting of stockholders, the term of office of the initial Class II directors shall expire at the 2023 annual meeting of stockholders and the term of office of the initial Class III directors shall expire at the 2024 annual meeting of stockholders. Each director elected at the 2022, 2023 or 2024 annual meeting of stockholders shall belong to the same class as the director whose term shall have then expired and who is being succeeded by such director. Commencing with the 2025 annual meeting of stockholders and at each annual meeting thereafter, each director up for election at such meeting shall be elected annually and shall hold office until the next annual meeting of stockholders and until his or her respective successor shall have been duly elected and qualified or until his or her earlier resignation or removal. Pursuant to such procedures, effective as of the conclusion of the 2027 annual meeting of stockholders, the Board of Directors will no longer be classified under Section 141(d) of the DGCL and directors shall no longer be divided into three classes. The election of directors need not be by written ballot.

5.3 **Removal of Directors.** Prior to the conclusion of the 2027 annual meeting of stockholders, except for Preferred Stock Directors, any director or the entire Board may be removed from office at any time, but only for cause. After the conclusion of the 2027 annual meeting of stockholders, except for Preferred Stock Directors, any director or the entire Board may be removed from office at any time, with or without cause. In either case, removal may only occur by the affirmative vote of at least a majority of the total voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

5.4 Vacancies and Newly Created Directorships. Subject to the rights of the holders of any one or more series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board resulting from death, resignation, retirement, disqualification, removal or other cause shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board, or by a sole remaining director. Any director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall be elected and qualified.

5.5 Adoption, Amendment or Repeal of Bylaws. In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board is expressly authorized to adopt, amend and repeal Bylaws, subject to the power of the Stockholders of the Corporation to adopt, amend and repeal any Bylaws whether adopted by them or otherwise.

ARTICLE VI

Limitation of Liability

To the fullest extent permitted under the DGCL, as amended from time to time, no director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. Any amendment or repeal of this ARTICLE VI shall not adversely affect any right or protection of a director of the Corporation hereunder in respect of any act or omission occurring prior to the time of such amendment or repeal.

ARTICLE VII

Indemnification

7.1 Right to Indemnification. The Corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (a "Covered Person") who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director or officer of the Corporation or, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, employee or agent of another entity or enterprise, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement (except for judgments, fines and amounts paid in settlement in any action or suit by or in the right of the Corporation to procure a judgment in its favor) actually and reasonably incurred by such Covered Person. Notwithstanding the preceding sentence, except as otherwise provided in Section 7.3, the Corporation shall be required to indemnify a Covered Person in connection with a Proceeding (or part thereof) commenced by such Covered Person only if the commencement of such Proceeding (or part thereof) by the Covered Person was authorized by the Board.

7.2 Prepayment of Expenses. To the extent not prohibited by applicable law, the Corporation shall pay the expenses (including attorneys' fees) incurred by a Covered Person in defending any Proceeding in advance of its final disposition; provided, however, that, to the extent required by applicable law, such payment of expenses in advance of the final disposition of the Proceeding shall be made only upon receipt of an undertaking by the Covered Person to repay all amounts advanced if it should be ultimately determined that the Covered Person is not entitled to be indemnified under this ARTICLE VII or otherwise.

7.3 Claims. If a claim for indemnification or advancement of expenses under this ARTICLE VII is not paid in full within 30 days after a written claim therefor by the Covered Person has been received by the Corporation, the Covered Person may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Corporation shall have the burden of proving that the Covered Person is not entitled to the requested indemnification or advancement of expenses under applicable law.

7.4 Nonexclusivity of Rights. The rights conferred on any Covered Person by this ARTICLE VII shall not be exclusive of any other rights that such Covered Person may have or hereafter acquire under any statute, provision of this Certificate of Incorporation, the Bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

7.5 Other Sources. The Corporation's obligation, if any, to indemnify or to advance expenses to any Covered Person who was or is serving at its request as a director, officer, employee or agent of another entity or enterprise shall be reduced by any amount such Covered Person may collect as indemnification or advancement of expenses from such other entity or enterprise.

7.6 Amendment or Repeal. Any amendment or repeal of the foregoing provisions of this ARTICLE VII shall not adversely affect any right or protection hereunder of any Covered Person in respect of any act or omission occurring prior to the time of such amendment or repeal.

7.7 Other Indemnification and Prepayment of Expenses. This ARTICLE VII shall not limit the right of the Corporation, to the extent and in the manner permitted by applicable law, to indemnify and to advance expenses to persons other than Covered Persons when and as authorized by appropriate corporate action.

ARTICLE VIII

Certificate Amendments

The Corporation reserves the right at any time, and from time to time, to amend or repeal any provision contained in this Certificate of Incorporation, and add other provisions authorized by the laws of the State of Delaware at the time in force, in the manner now or hereafter prescribed by applicable law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation (as amended) are granted subject to the rights reserved in this ARTICLE VIII.

ARTICLE IX

Exclusive Forum

Unless the Corporation consents in writing to the selection of an alternative forum, and subject to applicable jurisdictional requirements, the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the Corporation, and to the fullest extent permitted by applicable law, (b) any action asserting a claim of breach of a fiduciary duty owed by any current or former director, officer, employee, agent or stockholder of the Corporation to the Corporation or the Corporation's stockholders, (c) any action asserting a claim arising pursuant to any provision of the DGCL, this Certificate of Incorporation or the Bylaws, or (d) any action asserting a claim governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery of the State of Delaware lacks jurisdiction over such action or proceeding, then another court of the State of Delaware or, if no court of the State of Delaware has jurisdiction, then the United States District Court for the District of Delaware).

Unless the Corporation consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act of 1933.

[Remainder of Page Intentionally Blank]

IN WITNESS WHEREOF, Kyndryl Holdings, Inc. has caused this Amended and Restated Certificate of Incorporation to be executed by its duly authorized officer this ___ day of _____ 20__.

KYNDRYL HOLDINGS, INC.

By: _____

Name:

Title:

AMENDED AND RESTATED BYLAWS

of

KYNDRYL HOLDINGS, INC.

(A Delaware Corporation)

TABLE OF CONTENTS

| | <u>Page</u> |
|--------------------------------------|-------------|
| ARTICLE I – DEFINITIONS | 1 |
| ARTICLE II – STOCKHOLDERS | 2 |
| ARTICLE III – DIRECTORS | 11 |
| ARTICLE IV – COMMITTEES OF THE BOARD | 28 |
| ARTICLE V – OFFICERS | 28 |
| ARTICLE VI – INDEMNIFICATION | 30 |
| ARTICLE VII – GENERAL PROVISIONS | 31 |

ARTICLE I

DEFINITIONS

As used in these Bylaws, unless the context otherwise requires, the term:

- 1.1. “Board” means the Board of Directors of the Corporation.
 - 1.2. “Bylaws” means these Amended and Restated Bylaws of the Corporation, as amended from time to time.
 - 1.3. “Certificate of Incorporation” means the Certificate of Incorporation of the Corporation, as amended from time to time (including by any Preferred Stock Designation (as defined in the Certificate of Incorporation of the Corporation filed with the Office of the Secretary of State of the State of Delaware on [●], 20[●])).
 - 1.4. “Chair” means the Chair of the Board.
 - 1.5. “Chief Executive Officer” means the Chief Executive Officer of the Corporation.
 - 1.6. “Corporation” means Kyndryl Holdings, Inc.
 - 1.7. “DGCL” means the General Corporation Law of the State of Delaware, as amended from time to time.
 - 1.8. “Directors” means the directors of the Corporation.
 - 1.9. “Exchange Act” means the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, each as amended from time to time.
 - 1.10. “Law” means any U.S. or non-U.S., federal, state or local law (statutory, common or otherwise), constitution, treaty, convention, ordinance, code, rule, regulation, order, injunction, judgment, decree, ruling or other similar requirement enacted, adopted, promulgated or applied by a governmental authority (including any department, court, agency or official, or non-governmental self-regulatory organization, agency or authority and any political subdivision or instrumentality thereof).
 - 1.11. “Lead Director” means, at any given time, the lead, independent member (if any) elected as such by the Board and occupying such position.
 - 1.12. “Listing Date” means the first such date on which the Corporation has a class of equity securities registered under the Exchange Act and listed or admitted to trading on a national securities exchange (as defined under the Exchange Act).
 - 1.13. “Office of the Corporation” means the principal executive office of the Corporation, the Corporation’s registered office in the State of Delaware or any other offices at any other place or places designated from time to time by the Board as an Office of the Corporation for purposes of these Bylaws.
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1.14. “President” means the President of the Corporation.

1.15. “Public Disclosure” of any date or other information means disclosure thereof by a press release reported by the Dow Jones News Services, Associated Press or comparable U.S. national news service or in a document publicly filed by the Corporation with the SEC pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

1.16. “SEC” means the U.S. Securities and Exchange Commission.

1.17. “Secretary” means the Secretary of the Corporation.

1.18. “Stockholder Associated Person” means, with respect to any Stockholder, (i) any other beneficial owner of stock of the Corporation that are owned by such Stockholder and (ii) any person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Stockholder or such beneficial owner. For purposes of this definition, the terms “controls,” “controlled by” and “under common control with” mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise.

1.19. “Stockholders” means the stockholders of the Corporation as set forth on its stock ledger.

1.20. “Treasurer” means the Treasurer of the Corporation.

1.21. “Vice President” means a Vice President of the Corporation.

ARTICLE II

STOCKHOLDERS

2.1. Place of Meetings. Meetings of Stockholders may be held at such place, if any, either within or without the State of Delaware, or by means of remote communication, as may be designated by the Board from time to time.

2.2. Annual Meeting.

(a) A meeting of Stockholders for the election of Directors and such other business as may be properly brought before the meeting in accordance with these Bylaws shall be held annually at such date and time as may be designated by the Board from time to time.

(b) At an annual meeting of the Stockholders, only business (other than business relating to the nomination or election of Directors which is governed by Section 3.3) that has been properly brought before the Stockholder meeting in accordance with the procedures set forth in this Section 2.2 shall be conducted. To be properly brought before a meeting of Stockholders, such business must be brought before the meeting (i) by or at the direction of the Board or any committee thereof or (ii) by a Stockholder who (A) was a Stockholder when the notice required by this Section 2.2 is delivered to the Secretary and at the time of the meeting, (B) is entitled to vote at the meeting and (C) complies with the notice and other provisions of this Section 2.2. Subject to Section 2.2(i), and except with respect to the calling of special meetings of Stockholders (which is governed by Section 2.3) and nominations or elections of Directors (which are governed by Section 3.3), Section 2.2(b)(ii) is the exclusive means by which a Stockholder may bring business before an annual meeting of Stockholders. Any business brought before a meeting in accordance with Section 2.2(b)(ii) is referred to as “Stockholder Business.”

(c) Subject to Section 2.2(i), at any annual meeting of Stockholders, all proposals of Stockholder Business must be made by timely written notice given by or on behalf of a Stockholder (the “Notice of Business”) and must otherwise be a proper matter for Stockholder action under applicable Law. To be timely, the Notice of Business must be delivered personally or mailed to, and received at the Office of the Corporation, addressed to the Secretary, by no earlier than 120 days and no later than 90 days before the first anniversary of the date of the prior year’s annual meeting of Stockholders; provided, however, that if (A) the annual meeting of Stockholders is advanced by more than 30 days, or delayed by more than 60 days, from the first anniversary of the prior year’s annual meeting of Stockholders or (B) no annual meeting was held during the prior year, the notice by the Stockholder to be timely must be received (x) no earlier than 120 days before such annual meeting and (y) no later than the later of 90 days before such annual meeting and the tenth day after the earlier of the day on which the notice of such annual meeting was first made by mail or the day such annual meeting is announced by Public Disclosure. In no event shall an adjournment, postponement or deferral, or Public Disclosure of an adjournment, postponement or deferral, of a Stockholder meeting commence a new time period (or extend any time period) for the giving of the Notice of Business.

(d) The Notice of Business must set forth:

(i) the name and address of each Stockholder proposing Stockholder Business (the “Proponent”), as they appear on the Corporation’s books;

(ii) the name and address of any Stockholder Associated Person;

(iii) as to each Proponent and any Stockholder Associated Person, (A) the class or series and number of shares of stock directly or indirectly held of record and beneficially by the Proponent or Stockholder Associated Person, (B) a description of any agreement, arrangement or understanding, direct or indirect, with respect to such Stockholder Business between or among the Proponent, any Stockholder Associated Person or any others (including their names) acting in concert with any of the foregoing, (C) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, hedging transactions and borrowed or loaned shares) that has been entered into, directly or indirectly, by the Proponent or any Stockholder Associated Person and that remains in effect, the effect or intent of which is to mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of the Proponent or any Stockholder Associated Person with respect to shares of stock of the Corporation (a “Derivative”), (D) a description in reasonable detail of any proxy (including revocable proxies), contract, arrangement, understanding or other relationship pursuant to which the Proponent or any Stockholder Associated Person has a right to vote any shares of stock of the Corporation and (E) any profit-sharing or any performance-related fees (other than an asset-based fee) that any Proponent, any Stockholder Associated Person is entitled to, based on any increase or decrease in the value of stock of the Corporation or Derivatives thereof, if any, as of the date of such notice;

(iv) all other information that would be required to be filed with the SEC if the Proponents or Stockholder Associated Persons were participants in a solicitation subject to Section 14 of the Exchange Act (the information specified in Section 2.2(d)(i) to (iv) is referred to herein as “Stockholder Information”);

(v) a representation that each Proponent is a Stockholder entitled to vote at the meeting and intends to appear in person or by a qualified representative (as defined in Section 2.2(h)) at the meeting to propose such Stockholder Business;

(vi) a brief description of the Stockholder Business desired to be brought before the annual meeting, the text of the proposal (including the text of any resolutions proposed for consideration and, if such business includes a proposal to amend the Bylaws, the language of the proposed amendment) and the reasons for conducting such Stockholder Business at the meeting;

(vii) any material interest of each Proponent and any Stockholder Associated Person in such Stockholder Business;

(viii) a representation as to whether the Proponent intends (A) to deliver a proxy statement and form of proxy to holders of at least the percentage of the Corporation’s outstanding capital stock required to approve or adopt such Stockholder Business or (B) otherwise to solicit proxies from Stockholders in support of such Stockholder Business; and

(ix) a representation that the Proponents shall provide all other information and affirmations, updates and supplements required pursuant to these Bylaws.

(e) The Proponents shall also provide any other information reasonably requested from time to time by the Corporation within 10 business days after each such request.

(f) In addition, the Proponent shall affirm as true and correct the information provided to the Corporation in the Notice of Business or at the Corporation’s request pursuant to Section 2.2(e) (and shall update or supplement such information as needed so that such information shall be true and correct) as of (i) the record date for the meeting and (ii) the date that is 10 business days before the meeting and, if applicable, before reconvening any adjournment or postponement thereof. Such affirmation, update and/or supplement must be delivered personally or mailed to, and received at the Office of the Corporation, addressed to the Secretary, by no later than (x) five business days after the applicable date specified in clause (i) of the foregoing sentence (in the case of the affirmation, update and/or supplement required to be made as of those dates), and (y) not later than seven business days before the date for the meeting (in the case of the affirmation, update and/or supplement required to be made as of 10 business days before the meeting or reconvening any adjournment or postponement thereof).

(g) Except to the extent otherwise determined by the Board, the person presiding over the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the procedures set forth in this Section 2.2. Any such business not properly brought before the meeting shall not be transacted.

(h) Except to the extent otherwise determined by the Board, if the Proponent (or a qualified representative of the Proponent) does not appear at the meeting of Stockholders to present the Stockholder Business, such business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 2.2, to be considered a “qualified representative” of the Proponent, a person must be a duly authorized officer, manager or partner of such Stockholder or must be authorized by a writing executed by such Stockholder or an electronic transmission delivered by such Stockholder to act for such Stockholder as proxy at the meeting of Stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of Stockholders.

(i) The notice requirements of this Section 2.2 shall be deemed satisfied with respect to shareholder proposals that have been properly brought under Rule 14a-8 of the Exchange Act and that are included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting.

2.3. Special Meetings.

(a) Special meetings of Stockholders may be called at any time by, and only by, (i) the Board or (ii) solely to the extent required by Section 2.3(b), the Secretary. Business transacted at any special meeting of Stockholders shall be limited to the purposes stated in the Corporation’s notice of the meeting.

(b) Subject to Section 2.3(d)-(h), a special meeting of Stockholders shall be called by the Secretary upon proper written request or requests (each, a “Meeting Request”) given by or on behalf of one or more Stockholders (each, a “Requesting Stockholder”) who hold at least 25% of the voting power of all outstanding shares of Common Stock (as defined in the Certificate of Incorporation) (the “Required Percent”). The record date for determining Stockholders entitled to request a special meeting shall be the date on which the first Meeting Request for such special meeting was received by the Secretary in the manner required by the preceding sentence.

(c) To be in proper form, a Meeting Request shall be signed by the Requesting Stockholder or Requesting Stockholders submitting such Meeting Request, shall be delivered to and received by the Secretary at the Office of the Corporation by hand or by certified or registered mail, return receipt requested, and shall set forth:

(i) a statement of the specific purpose or purposes of the meeting and the matters proposed to be acted on at the meeting, the reasons for conducting such business at the meeting, and any material interest in such business of each such Requesting Stockholder;

- (ii) the name and address of each such Requesting Stockholder as it appears on the Corporation's stock ledger;
- (iii) the number of shares of the Corporation's Common Stock owned of record and beneficially by each such Requesting Stockholder;
- (iv) as to each such Requesting Stockholder, the Stockholder Information (except that references to the "Proponent" and "Stockholder Business" in Section 2.2(d)(i) to (iv) shall instead refer, respectively, to each "Requesting Stockholder" and "the matters proposed to be acted on at the special meeting" for purposes of this paragraph);
- (v) any material interest of each Requesting Stockholder in the matters proposed to be acted on at the special meeting;
- (vi) a representation as to whether each Requesting Stockholder intends (A) to deliver a proxy statement and form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the matters proposed to be acted on at the special meeting or (B) otherwise to solicit proxies from Stockholders in support of the matters proposed to be acted on at the special meeting; and
- (vii) a representation that each Requesting Stockholder shall provide all other information and affirmations, updates and supplements required pursuant to these Bylaws.

The requirement set forth in clause (iv) of the immediately preceding sentence shall not apply to (A) any Stockholder, or beneficial owner, as applicable, who has provided a written request solely in response to a solicitation made pursuant to, and in accordance with, Section 14(a) of the Exchange Act by way of a solicitation statement filed on Exchange Act Schedule 14A or (B) any Stockholder that is a broker, bank or custodian (or similar entity) and is acting solely as nominee on behalf of a beneficial owner.

(d) The Requesting Stockholders shall also provide any other information reasonably requested from time to time by the Corporation within 10 business days after each such request.

(e) The Requesting Stockholders shall affirm as true and correct the information provided to the Corporation in the Meeting Request or at the Corporation's request pursuant to Section 2.3(d) (and shall update or supplement such information as needed so that such information shall be true and correct) as of (i) the record date for the meeting, and (ii) the date that is 10 business days before the date of the meeting and, if applicable, before reconvening any adjournment or postponement thereof. Such affirmation, update and/or supplement must be delivered personally or mailed to, and received at the Office of the Corporation, addressed to the Secretary, by no later than (1) five business days after the applicable date specified in clause (i) of the foregoing sentence (in the case of the affirmation, update and/or supplement required to be made as of those dates), and (2) not later than seven business days before the date for the meeting (in the case of the affirmation, update and/or supplement required to be made as of 10 business days before the meeting or reconvening any adjournment or postponement thereof).

(f) A Requesting Stockholder may revoke its Meeting Request at any time by written revocation delivered to the Secretary, and if, following such revocation, there are unrevoked Meeting Requests from less than the Required Percent, the Board, in its discretion, may cancel the special meeting of the Stockholders.

(g) A special meeting requested by Stockholders shall be held at such date, time and place, if any, either within or without the state of Delaware or by means of remote communication, as may be fixed by the Board; provided, however, that the date of any such special meeting shall be not more than 90 days after the receipt by the Secretary in the manner required by Section 2.3(c) of Meeting Requests from the Required Percent.

(h) Notwithstanding anything to the contrary in this Section 2.3:

(i) A special meeting requested by Stockholders shall not be held if (A) the Meeting Requests from the Required Percent do not comply with these Bylaws or the Certificate of Incorporation; (B) the action relates to an item of business that is not a proper subject for stockholder action under applicable Law; (C) the Meeting Request is received by the Secretary during the period commencing 90 days prior to the date of, and ending on the date of adjournment of, the next annual meeting of Stockholders; (D) an identical or substantially similar item of business, as determined in good faith by the Board, was presented at a meeting of Stockholders held not more than 90 days before the Meeting Requests from the Required Percent are received by the Secretary or (E) the Meeting Requests from the Required Percent were made in a manner that involved a violation of Regulation 14A under the Exchange Act or other applicable Law; and

(ii) Nothing herein shall prohibit the Board from including in the Corporation's notice of any special meeting of Stockholders called by the Secretary additional matters to be submitted to the Stockholders at such meeting not included in the Meeting Request(s) in respect of such meeting.

2.4. Record Date.

(a) For the purpose of determining the Stockholders entitled to notice of or to vote at any meeting of Stockholders or any adjournment thereof, unless otherwise required by the Certificate of Incorporation or applicable Law, the Board may fix a record date, which record date shall not precede the date on which the resolution fixing the record date was adopted by the Board and shall not be more than 60 or less than 10 days before the date of such meeting. For the purposes of determining the Stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights, exercise any rights in respect of any change, conversion or exchange of stock or take any other lawful action, unless otherwise required by the Certificate of Incorporation or applicable Law, the Board may fix a record date, which record date shall not precede the date on which the resolution fixing the record date was adopted by the Board and shall not be more than 60 days prior to such action.

(b) if no such record date is fixed by the Board:

(i) The record date for determining Stockholders entitled to notice of and to vote at a meeting of Stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; and

(ii) The record date for the purposes of determining the Stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights, exercise any rights in respect of any change, conversion or exchange of stock or take any other lawful action shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

(c) When a determination of Stockholders entitled to notice of or to vote at any meeting of Stockholders has been made as provided in this Section 2.4, such determination shall apply to any adjournment thereof, unless the Board fixes a new record date for the adjourned meeting, in which case the Board shall also fix such record date or a date earlier than such date as the new Notice Record Date for the adjourned meeting.

2.5. Notice of Meetings of Stockholders. Whenever under the provisions of applicable Law, the Certificate of Incorporation or these Bylaws Stockholders are required or permitted to take any action at a meeting, a notice of the meeting in the form of a writing or electronic transmission shall be given stating the place, if any, date and hour of the meeting, the means of remote communication, if any, by which Stockholders and proxy holders may be deemed to be present in person and vote at such meeting, the record date, and, in the case of a special meeting, the purposes for which the meeting is called. Unless otherwise provided by these Bylaws or applicable Law, notice of any meeting shall be given, not less than 10 nor more than 60 days before the date of the meeting, to each Stockholder entitled to vote at such meeting as of the record date. If mailed, such notice shall be deemed to be given when deposited in the U.S. mail, with postage prepaid, directed to the Stockholder at his or her address as it appears on the records of the Corporation. If given by electronic mail, such notice shall be deemed to be given when directed to such Stockholder's electronic mail address unless the Stockholder has notified the Corporation in writing or by electronic transmission of an objection to receiving notice by electronic mail or such notice is prohibited pursuant to the terms of the DGCL. A notice by electronic mail must include a prominent legend that the communication is an important notice regarding the Corporation. An affidavit of the Secretary or the transfer agent of the Corporation that the notice required by this Section 2.5 has been given shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein. If a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place, if any, thereof, and the means of remote communication, if any, by which Stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. Any business that might have been transacted at the meeting as originally called may be transacted at the adjourned meeting. If, however, the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each Stockholder entitled to vote at the meeting.

2.6. Waivers of Notice. Whenever the giving of any notice to Stockholders is required by applicable Law, the Certificate of Incorporation or these Bylaws, a written waiver, signed by the Stockholder entitled to notice, or a waiver by electronic transmission by such Stockholder, whether before or after the event as to which such notice is required, shall be deemed equivalent to notice. Attendance by a Stockholder at a meeting shall constitute a waiver of notice of such meeting except when the Stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting has not been lawfully called or convened. Neither the business to be transacted at, nor the purposes of, any regular or special meeting of the Stockholders need be specified in any waiver of notice.

2.7. List of Stockholders. The Secretary shall prepare and make, at least 10 days before every meeting of Stockholders, a complete, alphabetical list of the Stockholders entitled to vote at the meeting, and showing the address of each Stockholder and the number of shares registered in the name of each Stockholder. Such list may be examined by any Stockholder, at the Stockholder's expense, for any purpose germane to the meeting, for a period of at least 10 days prior to the meeting, during ordinary business hours at the principal place of business of the Corporation or on a reasonably accessible electronic network or other electronic means as permitted by applicable Law. If the meeting is to be held at a place, the list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any Stockholder who is present. If the meeting is held solely by means of remote communication, the list shall also be open for inspection as provided by applicable Law. Except as provided by applicable Law, the stock ledger shall be the only evidence as to who are the Stockholders entitled to examine the list of Stockholders or to vote in person or by proxy at any meeting of Stockholders.

2.8. Quorum of Stockholders; Adjournment. At each meeting of Stockholders, the presence, in person or represented by proxy, of the holders of a majority of the voting power of all outstanding shares of stock entitled to vote at the meeting of Stockholders shall constitute a quorum for the transaction of business at such meeting, except that when specified business is to be voted on by one or more classes or series of stock voting as a separate class, the holders of a majority of the voting power of the shares of such classes or series shall constitute a quorum of such separate class for the transaction of such business. The person presiding over the meeting in accordance with Section 2.11 or, in the absence of such person, the holders of a majority of the voting power of the shares of stock present in person or represented by proxy at any meeting of Stockholders, including an adjourned meeting, even if such holders do not constitute a quorum, may adjourn such meeting to another time or place. Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity. The Stockholders present at a duly called meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Stockholders to leave less than a quorum.

2.9. Voting; Proxies.

(a) At any meeting of Stockholders, all matters other than the election of directors, and except as otherwise provided by the Certificate of Incorporation, these Bylaws or any applicable Law, shall be decided by the affirmative vote of a majority of the voting power of shares of stock present in person or represented by proxy and entitled to vote thereon. At all meetings of Stockholders for the election of Directors, each Director shall be elected by a majority of the votes cast with respect to the Director; provided that if as of the record date for the applicable meeting of Stockholders the number of nominees exceeds the number of Directors to be elected, the Directors shall be elected by the vote of a plurality of the votes cast. For purposes of this Section 2.9, a “majority of the votes cast” means that (a) the number of votes cast “for” a Director must exceed the number of votes cast “against” that Director and (b) abstentions and broker non-votes are not counted as votes cast. Any Director who is not so elected shall offer to tender his or her resignation to the Board in accordance with Section 3.7. The independent directors of the Board, giving due consideration to the best interests of the Corporation and its stockholders, shall evaluate the relevant facts and circumstances, and shall make a decision, within 90 days after the election, on whether to accept the tendered resignation. Any Director who tenders a resignation pursuant to this provision shall not participate in the Board's decision. The Board will promptly disclose publicly its decision and, if applicable, the reasons for rejecting the tendered resignation.

(b) Each Stockholder entitled to vote at a meeting of Stockholders may authorize another person or persons to act for such Stockholder by proxy but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A proxy shall be irrevocable if it states that it is irrevocable and if, and only so long as, it is coupled with an interest sufficient in Law to support an irrevocable power. A Stockholder may revoke any proxy that is not irrevocable by attending the meeting and voting in person or by delivering to the Secretary a revocation of the proxy or by delivering a new duly authorized proxy bearing a later date.

2.10. Voting Procedures and Inspectors at Meetings of Stockholders. The Board, in advance of any meeting of Stockholders, shall appoint one or more inspectors, who may be employees of the Corporation, to act at the meeting and make a written report thereof. The Board may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting, the person presiding at the meeting may appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall (a) ascertain the number of shares outstanding and the voting power of each, (b) determine the shares represented at the meeting and the validity of proxies and ballots, (c) count all votes and ballots, (d) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors and (e) certify their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of their duties. Unless otherwise provided by the Board, the date and time of the opening and the closing of the polls for each matter upon which the Stockholders will vote at a meeting shall be determined by the person presiding at the meeting and shall be announced at the meeting. No ballot, proxy, vote or any revocation thereof or change thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery of the State of Delaware upon application by a Stockholder shall determine otherwise. In determining the validity and counting of proxies and ballots cast at any meeting of Stockholders, the inspectors may consider such information as is permitted by applicable Law. No person who is a candidate for office at an election may serve as an inspector at such election.

2.11. Conduct of Meetings; Adjournment. The Board may adopt such rules and procedures for the conduct of Stockholder meetings as it deems appropriate. At each meeting of Stockholders, the Chair, or in the absence of the Chair, the Chief Executive Officer, or if the Chair and the Chief Executive Officer are absent, any officer of the Corporation designated by the Board (or in the absence of any such designation, the President, or in the absence of the President, the most senior Vice President present), shall preside over the meeting. Except to the extent inconsistent with the rules and procedures as adopted by the Board, the person presiding over the meeting of Stockholders shall have the right and authority to convene, adjourn and reconvene the meeting from time to time, to prescribe such additional rules and procedures and to do all such acts as, in the judgment of such person, are appropriate for the proper conduct of the meeting. Such rules and procedures, whether adopted by the Board or prescribed by the person presiding over the meeting, may include (a) the establishment of an agenda or order of business for the meeting, (b) rules and procedures for maintaining order at the meeting and the safety of those present, (c) limitations on attendance at or participation in the meeting to Stockholders, their duly authorized and constituted proxies or such other persons as the person presiding over the meeting shall determine, (d) restrictions on entry to the meeting after the time fixed for the commencement thereof and (e) limitations on the time allotted to questions or comments by participants. Subject to any prior, contrary determination by the Board, the person presiding over any meeting of Stockholders, in addition to making any other determinations that may be appropriate to the conduct of the meeting, may determine and declare to the meeting that a matter or business was not properly brought before the meeting and any such matter or business not properly brought before the meeting shall not be transacted or considered. Unless and to the extent determined by the Board or the person presiding over the meeting, meetings of Stockholders shall not be required to be held in accordance with the rules of parliamentary procedure. The Secretary shall act as secretary of the meeting. If none of the officers above designated to act as the person presiding over the meeting or as secretary of the meeting shall be present, a person presiding over the meeting or a secretary of the meeting, as the case may be, shall be designated by the Board and, if the Board has not so acted, in the case of the designation of a person to act as secretary of the meeting, designated by the person presiding over the meeting.

ARTICLE III

DIRECTORS

3.1. General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board. The Board may adopt such rules and procedures, not inconsistent with the Certificate of Incorporation, these Bylaws or applicable Law, as it may deem proper for the conduct of its meetings and the management of the Corporation.

3.2. Number; Term of Office. The Board shall consist of six to twenty members, the number thereof to be determined in accordance with the Certificate of Incorporation. Each Director shall hold office until a successor is duly elected and qualified or until the Director's earlier death, resignation, disqualification or removal.

3.3. Nominations of Directors.

(a) Subject to Section 3.3(k) and Section 3.5, only persons who are nominated in accordance with the procedures set forth in this Section 3.3 are qualified for election as Directors.

(b) Nominations of persons for election to the Board may only be made at a meeting properly called for the election of Directors and only (i) by or at the direction of the Board or any committee thereof or (ii) by a Stockholder who (A) was a Stockholder when the notice required by this Section 3.3 is delivered to the Secretary and at the time of the meeting, (B) is entitled to vote for the election of Directors at the meeting and (C) complies with the notice and other provisions of this Section 3.3. Subject to Section 3.3(k) and Section 3.5, Section 3.3(b)(ii) is the exclusive means by which a Stockholder may nominate a person for election to the Board. Persons nominated in accordance with Section 3.3(b)(ii) are referred to as “Stockholder Nominees.” A Stockholder nominating persons for election to the Board is referred to as the “Nominating Stockholder.”

(c) Subject to Section 3.3(k), all nominations of Stockholder Nominees must be made by timely written notice given by or on behalf of a Stockholder (the “Notice of Nomination”). To be timely, the Notice of Nomination must be delivered personally or mailed to and received at the Office of the Corporation, addressed to the attention of the Secretary, by the following dates:

(i) in the case of the nomination of a Stockholder Nominee for election to the Board at an annual meeting of Stockholders, no earlier than 120 days and no later than 90 days before the first anniversary of the date of the prior year’s annual meeting of Stockholders; provided, however, that if (A) the annual meeting of Stockholders is advanced by more than 30 days, or delayed by more than 60 days, from the first anniversary of the prior year’s annual meeting of Stockholders or (B) no annual meeting was held during the prior year, the notice by the Stockholder to be timely must be received (1) no earlier than 120 days before such annual meeting and (2) no later than the later of 90 days before such annual meeting and the tenth day after the earlier of the day on which the notice of such annual meeting was first made by mail or the day such annual meeting is announced by Public Disclosure; and

(ii) in the case of the nomination of a Stockholder Nominee for election to the Board at a special meeting of Stockholders, no earlier than 120 days before and no later than the later of 90 days before such special meeting and the tenth day after the earlier of the day on which the notice of such special meeting was first made by mail or the day such special meeting is announced by Public Disclosure; provided, that nominations of persons for elections to the Board may be made at a special meeting at which directors are to be elected pursuant to the Corporation’s notice of meeting only (x) by or at the direction of the Board or any committee thereof or (y) in the event the Board has determined that directors shall be elected at such meeting, by any Stockholder who (A) is a stockholder of record at the time the notice provided for in this Section 3.3 is delivered to the Secretary, (B) is entitled to vote at the meeting and upon such election and (C) complies with the notice and other provisions set forth in this Section 3.3.

(d) Notwithstanding anything to the contrary, if the number of Directors to be elected to the Board at a meeting of Stockholders is increased and there is no Public Disclosure by the Corporation naming the nominees for the additional directorships or specifying the increased size of the Board at least 100 days before the first anniversary of the preceding year's annual meeting (in the case of an annual meeting) or before such special meeting (in the case of a special meeting), a Notice of Nomination shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered personally and received at the Office of the Corporation, addressed to the attention of the Secretary, no later than the close of business on the tenth day following the day on which such Public Disclosure is first made by the Corporation.

(e) In no event shall an adjournment, postponement or deferral, or Public Disclosure of an adjournment, postponement or deferral, of an annual or special meeting commence a new time period (or extend any time period) for the giving of the Notice of Nomination.

(f) The Notice of Nomination shall set forth:

(i) the Stockholder Information with respect to each Nominating Stockholder and Stockholder Associated Person (except that references to the "Proponent" in Section 2.2(d)(i)-(iv) shall instead refer to the "Nominating Stockholder," and the disclosure required by Section 2.2(d)(iii)(B) may be omitted, for purposes of this Section 3.3(f)(i));

(ii) a representation that each Nominating Stockholder is a Stockholder entitled to vote at the meeting and intends to appear in person or by a qualified representative (as defined in Section 3.3(j)) at the meeting to propose such nomination;

(iii) all information regarding each Stockholder Nominee and Stockholder Associated Person that would be required to be disclosed in a solicitation of proxies subject to Section 14 of the Exchange Act, the written consent of each Stockholder Nominee to being named in a proxy statement as a nominee and to serve if elected and a completed signed questionnaire, representation and agreement required by Section 3.4;

(iv) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among a Nominating Stockholder, Stockholder Associated Person or their respective associates, or others acting in concert therewith, including all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the Nominating Stockholder, Stockholder Associated Person or any person acting in concert therewith were the "registrant" for purposes of such rule and the Stockholder Nominee were a director or executive of such registrant;

(v) a representation as to whether the Nominating Stockholders intend (A) to deliver a proxy statement and form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve the nomination or (B) otherwise to solicit proxies from stockholders in support of such nomination; and

(vi) a representation that the Nominating Stockholders shall provide all other information and affirmations, updates and supplements required pursuant to these Bylaws.

(g) The Nominating Stockholders shall also provide any other information reasonably requested from time to time by the Corporation within 10 business days after each such request.

(h) The Nominating Stockholder shall affirm as true and correct the information provided to the Corporation in the Notice of Nomination or at the Corporation's request pursuant to Section 3.3(g) (and shall update or supplement such information as needed so that such information shall be true and correct) as of (i) the record date for the meeting, and (ii) the date that is 10 business days before the date of the meeting and, if applicable, before reconvening any adjournment or postponement thereof. Such affirmation, update and/or supplement must be delivered personally or mailed to, and received at the Office of the Corporation, addressed to the Secretary, by no later than (1) five business days after the applicable date specified in clause (i) of the foregoing sentence (in the case of the affirmation, update and/or supplement required to be made as of those dates), and (2) seven business days before the date for the meeting (in the case of the affirmation, update and/or supplement required to be made as of 10 business days before the meeting or reconvening any adjournment or postponement thereof).

(i) The person presiding over the meeting shall, if the facts warrant, determine and declare to the meeting that the nomination was not made in accordance with the procedures set forth in this Section 3.3. Any such defective nomination shall be disregarded.

(j) If the Nominating Stockholder (or a qualified representative of the Nominating Stockholder) does not appear at the applicable Stockholder meeting to nominate the Stockholder Nominees, such nomination shall be disregarded and such Stockholder Nominees shall not be qualified for election as Directors, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 3.3, to be considered a "qualified representative" of the Nominating Stockholder, a person must be a duly authorized officer, manager or partner of such Nominating Stockholder or must be authorized by a writing executed by such Nominating Stockholder or an electronic transmission delivered by such Nominating Stockholder to act for such Nominating Stockholder as proxy at the meeting of Stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of Stockholders.

(k) Nothing in this Section 3.3 shall be deemed to affect any rights of the holders of any series of preferred stock of the Corporation pursuant to any applicable provision of the Certificate of Incorporation.

3.4. Nominee Qualifications. To be qualified to be a nominee for election or reelection as a Director, the nominee must deliver (in accordance with the time periods prescribed for delivery of a Notice of Nomination under Section 3.3 or a Proxy Access Notice under Section 3.5 (in the case of a Stockholder Nominee or Proxy Access Nominee, respectively) or upon request of the Secretary from time to time (in the case of a person nominated by or at the direction of the Board or any committee thereof)) to the Secretary at the Office of the Corporation:

(a) a completed and signed written questionnaire (in the form provided by the Secretary) with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made;

(b) information as necessary to permit the Board to determine if such nominee (i) is independent under, and satisfies the audit, compensation or other board committee independence requirements under, the applicable rules and listing standards of the principal national securities exchanges upon which the stock of the Corporation is listed or traded, any applicable rules of the SEC or any other regulatory body with jurisdiction over the Corporation, or any publicly disclosed standards used by the Board in determining and disclosing the independence of the Directors and Board committee members, (ii) is not or has not been, within the past three years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914, as amended from time to time, or (iii) is not a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted in a criminal proceeding within the past 10 years ((i) through (iii) collectively, the “Independence Standards”);

(c) a written representation and agreement (in the form provided by the Secretary) that such person (i) is not and will not become a party to (A) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such person will act or vote as a Director on any issue or question (a “Voting Commitment”) that has not been disclosed to the Corporation or (B) any Voting Commitment that could limit or interfere with such person’s ability to comply with such person’s fiduciary duties as a Director under applicable Law, (ii) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a Director that has not been disclosed to the Corporation, (iii) will comply with all applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading and other policies and guidelines of the Corporation that are applicable to Directors and (iv) currently intends to serve as a Director for the full term for which he or she is standing for election; and

(d) such person’s written consent to being named as a nominee for election as a Director and to serving as a Director if elected.

The Secretary shall provide any Stockholder the forms of the written questionnaire, representation and agreement referred to in this Section 3.4 upon written request therefor.

3.5. Proxy Access for Director Nominations.

(a) Information to be Included in the Corporation's Proxy Materials. Subject to the provisions of this Section 3.5, for an annual meeting of Stockholders, the Corporation shall include in its proxy statement and in its form of proxy for such annual meeting, in addition to any persons nominated for election by or at the direction of the Board (or any committee thereof), the name of and the Required Information (as defined below) in respect of any person nominated for election to the Board who satisfies the eligibility requirements in this Section 3.5 (a "Proxy Access Nominee") and who is identified in a proper written notice (the "Proxy Access Notice") that complies with, and is timely delivered pursuant to, this Section 3.5 by an Eligible Stockholder (as defined below). Notwithstanding anything to the contrary contained in this Section 3.5, the Corporation may omit from its proxy materials any information or Supporting Statement (as defined below) (or portions thereof) that it, in good faith, believes (i) would violate any applicable Law or (ii) directly or indirectly impugns the character, integrity or personal reputation of, or directly or indirectly makes charges concerning improper, illegal or immoral conduct or associations, without factual foundation, with respect to any person or entity. Nothing in this Section 3.5 shall limit the Corporation's ability to solicit against or for, and include in its proxy materials its own statements relating to, any Eligible Stockholder or Proxy Access Nominee.

(b) Definition of Required Information. For the purposes of this Section 3.5, the "Required Information" that the Corporation shall include in its proxy statement is (i) the information concerning the Proxy Access Nominee and the Eligible Stockholder that the Corporation determines is required to be disclosed in the Corporation's proxy statement by the applicable requirements of the Exchange Act and (ii) if the Eligible Stockholder so elects, a Supporting Statement.

(c) Definition of Supporting Statement. For each of its Proxy Access Nominees, the Eligible Stockholder may, at its option, provide to the Secretary, at the time the Proxy Access Notice is delivered, one written statement, not to exceed 500 words, in support of such Proxy Access Nominee's candidacy (a "Supporting Statement"). Only one Supporting Statement may be submitted by an Eligible Stockholder for each Proxy Access Nominee.

(d) Definition of Eligible Stockholder. For the purposes of this Section 3.5, an "Eligible Stockholder" is one or more persons who:

(i) own and have owned (in each case, as defined in Section 3.5(f)) continuously at least three years prior to the date the Proxy Access Notice is received at the Office of the Corporation (the "Minimum Holding Period") a number of shares of stock of the Corporation that represents at least 3% of the voting power of all shares of stock of the Corporation issued and outstanding and entitled to vote in the election of directors as of the most recent date for which such amount is set forth in any Public Disclosure made by the Corporation prior to the date the Proxy Access Notice is received at the Office of the Corporation (the "Required Shares");

(ii) continues to own the Required Shares through the date of the annual meeting of Stockholders; and

(iii) satisfies all other requirements of, and complies with all applicable procedures set forth in, this Section 3.5;

provided, that the aggregate number of record stockholders and beneficial owners whose stock ownership is counted for the purposes of satisfying the foregoing ownership requirement shall not exceed 20. Two or more funds that are part of the same Qualifying Fund Group (as defined in Section 3.5(e)) shall be treated as one record stockholder or beneficial owner for purposes of determining the aggregate number of record stockholders and beneficial owners in this paragraph and shall be treated as one person for the purpose of determining “ownership” as defined in Section 3.5(f). No record stockholder (other than a Custodian Holder (as defined below)) or beneficial owner may be a member of more than one group constituting an Eligible Stockholder with respect to any annual meeting of Stockholders, and no shares may be attributed to more than one Eligible Stockholder or group constituting an Eligible Stockholder. If any person (other than a Custodian Holder) purports to be a member of more than one group constituting an Eligible Stockholder, such person shall only be deemed to be a member of the group that has the largest ownership position (as reflected in the applicable Proxy Access Notice). “Custodian Holder,” with respect to any Eligible Stockholder, means any broker, bank or custodian (or similar nominee) who (i) is acting solely as a nominee on behalf of a beneficial owner and (ii) does not own (as defined in Section 3.5(f)) any of the shares comprising the Required Shares of the Eligible Stockholder. For the avoidance of doubt, Required Shares will qualify as such if and only if the beneficial owner of such shares as of the date of the Proxy Access Notice has itself beneficially owned such shares continuously for the Minimum Holding Period and through the date of the annual meeting of Stockholders (in addition to the other applicable requirements being met).

Whenever the Eligible Stockholder consists of a group of persons (including a group of funds that are part of the same Qualifying Fund Group), each provision in this Section 3.5 that requires the Eligible Stockholder to provide any written statements, representations, undertakings, agreements or other instruments or to meet any other conditions shall be deemed to require each such person (including each individual fund) that is a member of such group (other than a Custodian Holder) to provide such statements, representations, undertakings, agreements or other instruments and to meet such other conditions (except that the members of such group may aggregate the shares that each member has owned continuously for the Minimum Holding Period in order to meet the 3% ownership requirement of the “Required Shares” definition).

(e) Definition of Qualifying Fund Group. For the purposes of this Section 3.5, a “Qualifying Fund Group” means two or more funds that are (i) under common management and investment control, (ii) under common management and funded primarily by the same employer or (iii) a “group of investment companies,” as such term is defined in Section 12(d)(1)(G)(ii) of the Investment Company Act of 1940, as amended from time to time.

(f) Definition of Ownership. For the purposes of this Section 3.5, a person shall be deemed to “own” only those outstanding shares of stock of the Corporation as to which the person:

(i) possesses full voting and investment rights; and

(ii) possesses full economic interest (including the opportunity for profit and risk of loss);

provided that the number of shares calculated in accordance with the foregoing clauses (i) and (ii) shall not include any shares:

(A) sold by such person or any of its affiliates in any transaction that has not been settled or closed;

(B) borrowed by such person or any of its affiliates for any purpose or purchased by such person or any of its affiliates pursuant to an agreement to resell; or

(C) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by such person or any of its affiliates, whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of outstanding shares of the Corporation, in any such case which instrument or agreement has, or is intended to have, or if exercised would have, the purpose or effect of:

(1) reducing in any manner, to any extent or at any time in the future such person's or any of its affiliates' full right to vote or direct the voting of any such shares; or

(2) hedging, offsetting or altering to any degree gain or loss arising from the full economic ownership of such shares by such person or any of its affiliates.

For avoidance of doubt, a person shall "own" shares held of record in the name of a nominee (including a Custodian Holder) or other intermediary so long as the person retains the right to instruct how the shares are voted with respect to the election of Directors and the right to direct the disposition thereof and possesses the full economic interest therein, and a person's ownership of shares shall be deemed to continue during any period in which the person has:

(i) delegated any voting power by means of a proxy, power of attorney or other instrument or arrangement that is revocable at any time by the person without condition; or

(ii) loaned such shares; provided that the person has the power to recall such loaned shares on not more than five business days' notice.

For the purposes of this Section 3.5, the terms "owned," "owning" and other variations of the word "own" shall have correlative meanings, and the term "affiliate" shall have the meaning ascribed thereto in the rules and regulations promulgated under the Exchange Act. Whether outstanding shares of common stock of the Corporation are "owned" for these purposes shall be determined by the Board.

(g) Notice Period. To be timely under this Section 3.5, the Proxy Access Notice must be delivered to the Office of the Corporation, addressed to the Secretary, no earlier than 150 days and no later than 120 days before the first anniversary of the filing date of the Corporation's definitive proxy statement for the prior year's annual meeting of Stockholders; provided, however, that if the date of the annual meeting is advanced by more than 30 days prior to, or delayed by more than 60 days after, the first anniversary of the prior year's annual meeting of Stockholders, or if no annual meeting was held in the preceding year, then, for the Proxy Access Notice to be timely, it must be delivered to the Office of the Corporation, addressed to the Secretary, (i) no earlier than 120 days before such annual meeting and (ii) no later than the close of business on the later of 90 days before such annual meeting and the tenth day after the earlier of the day on which the notice of such annual meeting was first made by mail or the day such annual meeting is announced by Public Disclosure. In no event shall an adjournment, postponement or deferral, or Public Disclosure of an adjournment, postponement or deferral, of an annual meeting of Stockholders commence a new time period (or extend any time period) for the giving of the Proxy Access Notice pursuant to this Section 3.5.

(h) Form of Notice. To be in proper written form, the Proxy Access Notice must include or be accompanied by the following:

(i) a written statement by the Eligible Stockholder certifying as to the number of shares it owns and has owned continuously for the Minimum Holding Period, and the Eligible Stockholder's agreement to provide (a) within five business days following the later of the record date for the annual meeting of Stockholders or the date on which notice of the record date is first publicly disclosed, a written statement by the Eligible Stockholder certifying as to the number of shares it owns and has owned continuously through the record date and (b) prompt notice if the Eligible Stockholder ceases to own a number of shares at least equal to the Required Shares prior to the date of the annual meeting;

(ii) if the Eligible Stockholder is not a record holder of the Required Shares, proof that the Eligible Stockholder owns, and has owned continuously for the Minimum Holding Period, the Required Shares, in a form that would be deemed by the Corporation to be acceptable pursuant to Rule 14a-8(b)(2) under the Exchange Act (or any successor rule) for purposes of a shareholder proposal under such rule;

(iii) a copy of the Schedule 14N that has been or is concurrently being filed with the SEC as required by Rule 14a-18 under the Exchange Act;

(iv) as to the Eligible Stockholder and each Proxy Access Nominee, the information required by Section 2.2(d)(iii)(C)-(D) (except that the references to the "Proponent" and to "any Stockholder Associated Person" in such clauses shall instead refer, respectively, to the "Eligible Stockholder" and "each Proxy Access Nominee" for purposes of this paragraph);

(v) as to each Proxy Access Nominee:

(A) the items specified in Section 3.3(f)(iii) (including the questionnaire, representation and agreement required by Section 3.4) (except that the references to “Stockholder Nominee” in such section shall instead refer to “Proxy Access Nominee,” and the reference to the “Stockholder Associated Person” may be disregarded, for purposes of this paragraph) and an executed agreement, in a form deemed satisfactory by the Board or its designee (which form shall be provided by the Corporation reasonably promptly upon written request therefor), pursuant to which such Proxy Access Nominee agrees not to be named in any other person’s proxy statement or form of proxy;

(B) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among the Eligible Stockholder, such Proxy Access Nominee or their respective associates (as defined in Rule 14a-1 under the Exchange Act), or others acting in concert therewith, including all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the Eligible Stockholder or its affiliates or any person acting in concert therewith were the “registrant” for purposes of such rule and the person were a director or executive of such registrant; and

(C) any other information relating to the Proxy Access Nominee that would be required to be disclosed in a proxy statement or other filings required to be made in connection with the solicitation of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder;

(vi) an executed agreement, in a form deemed satisfactory by the Board or its designee (which form shall be provided by the Corporation reasonably promptly upon written request therefor), pursuant to which the Eligible Stockholder:

(A) represents that it intends to continue to hold the Required Shares through the date of, and to vote the Required Shares at, the annual meeting of Stockholders;

(B) represents that it acquired the Required Shares in the ordinary course of business and not with the intent to change or influence control of the Corporation, and does not presently have such intent;

(C) represents and agrees that it has not nominated and will not nominate for election to the Board at the annual meeting of Stockholders any person other than the Proxy Access Nominee(s) it is nominating pursuant to this Section 3.5;

(D) represents and agrees that it is not currently engaged as of the date of the agreement, and will not engage, in, and is not currently as of the date of the agreement, and will not be, a “participant” in another person’s, “solicitation” within the meaning of Rule 14a-1(l) under the Exchange Act in support of the election of any individual as a director at the annual meeting other than its Proxy Access Nominee(s) or a nominee of the Board;

(E) represents and agrees that it has not distributed and will not distribute to any Stockholder or beneficial owner of the Corporation's stock any form of proxy for the annual meeting other than the form distributed by the Corporation;

(F) represents and agrees that it is currently in compliance as of the date of the agreement, and will comply, with all Laws and regulations (including, without limitation, Rule 14a-9(a) under the Exchange Act) applicable to solicitations and the use, if any, of soliciting material in connection with the annual meeting;

(G) agrees to assume all liability stemming from any legal or regulatory violation arising out of the Eligible Stockholder's communications with the Stockholders or beneficial owners of the Corporation's stock or out of the information that the Eligible Stockholder provided to the Corporation, in each case, in connection with the nomination or election of Proxy Access Nominee(s) at the annual meeting;

(H) agrees to indemnify and hold harmless the Corporation and each of its directors, officers and employees individually against any liability, loss, damages, expenses or other costs (including attorneys' fees) incurred in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the Corporation or any of its directors, officers or employees arising out of any legal or regulatory violation referenced in clause (G) above or any failure or alleged failure of the Eligible Stockholder or its Proxy Access Nominee(s) to comply with, or any breach or alleged breach by the Eligible Stockholder or its Proxy Access Nominee(s) of, the requirements of this Section 3.5; and

(I) agrees to file with the SEC any written solicitation of the Stockholders or beneficial owners of the Corporation's stock relating to the meeting at which its Proxy Access Nominee(s) will be nominated, regardless of whether any such filing is required under Regulation 14A of the Exchange Act or whether any exemption from filing is available for such solicitation or other communication under Regulation 14A of the Exchange Act;

(vii) in the case of a nomination by a group of persons together constituting an Eligible Stockholder, the designation by all group members (other than a Custodian Holder) of one member of the group that is authorized to receive communications, notices and inquiries from the Corporation and to act on behalf of the Eligible Stockholder group with respect to all matters relating to the nomination under this Section 3.5 (including withdrawal of the nomination); and

(viii) in the case of a nomination by a group of persons together constituting an Eligible Stockholder in which two or more funds that are part of the same Qualifying Fund Group are counted as one record stockholder or beneficial owner for purposes of qualifying as an Eligible Stockholder, documentation reasonably satisfactory to the Corporation that demonstrates that the funds are part of the same Qualifying Fund Group.

(i) Additional Required Information. In addition to the information required pursuant to Section 3.5(h) or any other provision of these Bylaws, (i) the Corporation from time to time may require any proposed Proxy Access Nominee to furnish any other information (a) that may reasonably be required by the Corporation to determine whether the Proxy Access Nominee would be independent under the Independence Standards (as defined in Section 3.4), (b) that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such Proxy Access Nominee, (c) that may reasonably be required by the Corporation to determine the eligibility of such Proxy Access Nominee to serve as a Director or (d) as may otherwise be reasonably requested, and (ii) the Corporation from time to time may require the Eligible Stockholder to furnish any other information that may reasonably be required by the Corporation to verify the Eligible Stockholder's continuous ownership of the Required Shares for the Minimum Holding Period or other compliance with this Section 3.5.

(j) Exclusion From Proxy Materials. Notwithstanding anything to the contrary contained in this Section 3.5, the Corporation shall not be required pursuant to this Section 3.5 to include a Proxy Access Nominee in its proxy materials for any annual meeting of Stockholders, or, if the proxy statement already has been filed, to allow the nomination of a Proxy Access Nominee, notwithstanding that proxies in respect of such vote may have been received by the Board, if the Board determines that:

(i) such Proxy Access Nominee would not satisfy the Independence Standards;

(ii) the election of such Proxy Access Nominee as a member of the Board would cause the Corporation to be in violation of its Certificate of Incorporation, these Bylaws, the rules or listing standards of the principal national securities exchanges upon which the stock of the Corporation is listed or traded, or any applicable Law, rule or regulation;

(iii) such Proxy Access Nominee is, or has been within the past three years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914, as amended from time to time;

(iv) such Proxy Access Nominee is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted in such a criminal proceeding within the past 10 years;

(v) such Proxy Access Nominee is subject to any order of the type specified in Rule 506(d) of Regulation D promulgated under the Securities Act of 1933, as amended from time to time (the "Securities Act");

(vi) such Proxy Access Nominee otherwise becomes ineligible for inclusion in the Corporation's proxy materials pursuant to this Section 3.5 or otherwise becomes ineligible, not qualified or unavailable for election at the annual meeting of Stockholders, in each case as determined by the Board or the person presiding over the annual meeting;

(vii) such Proxy Access Nominee or the applicable Eligible Stockholder (or any member of any group of persons that together is such Eligible Stockholder) provided information to the Corporation in connection with such nomination that was untrue in any material respect or omitted to state a material fact necessary in order to make any statement made, in light of the circumstances under which it was made, not misleading;

(viii) such Proxy Access Nominee or the applicable Eligible Stockholder (or any member of any group of persons that together is such Eligible Stockholder) otherwise breaches or fails to comply with its representations, undertakings or obligations pursuant to these Bylaws, including, without limitation, this Section 3.5; or

(ix) the Eligible Stockholder ceases to be an Eligible Stockholder for any reason, including, but not limited to, not owning the Required Shares through the date of the applicable annual meeting.

For the purpose of this subsection (j), the occurrence of clauses (i) through (vi) and, to the extent related to a breach or failure by the Proxy Access Nominee, clauses (vii) and (viii) will result in the exclusion from the proxy materials pursuant to this Section 3.5 of the specific Proxy Access Nominee to whom the ineligibility applies and any related Supporting Statement or, if the proxy statement for the applicable annual meeting of Stockholders already has been filed, will result in such Proxy Access Nominee not being eligible or qualified for election at such annual meeting of Stockholders, and, in either case, no other nominee may be substituted by the Eligible Stockholder that nominated such Proxy Access Nominee. The occurrence of clause (ix) and, to the extent related to a breach or failure by an Eligible Stockholder (or any member of any group of persons that together is such Eligible Stockholder), clauses (vii) and (viii) will result in the shares owned by such Eligible Stockholder (or such member of any group of persons that together is such Eligible Stockholder) being excluded from the Required Shares and, if as a result the persons who together nominated the Proxy Access Nominee shall no longer constitute an Eligible Stockholder, will result in the exclusion from the proxy materials pursuant to this Section 3.5 of all of such persons' Proxy Access Nominees and any related Supporting Statements or, if the proxy statement for the applicable annual meeting of Stockholders already has been filed, will result in such Proxy Access Nominees not being eligible or qualified for election at such annual meeting of Stockholders.

(k) Permitted Number of Proxy Access Nominees.

(i) The maximum number of Proxy Access Nominees nominated by all Eligible Stockholders that will appear in the Corporation's proxy materials with respect to an annual meeting of Stockholders shall not exceed the greater of (i) two and (ii) 20% of the number (as of the last day on which a Proxy Access Notice may be delivered pursuant to this Section 3.5 with respect to the annual meeting) of directors to be elected by the holders of Common Stock at the annual meeting of Stockholders, or if the number of directors calculated in this clause (ii) is not a whole number, the closest whole number below 20% (such number, determined pursuant to clause (i) or clause (ii), as applicable, the "Permitted Number"); provided, however, that if the number of Directors to be elected by the holders of Common Stock at the annual meeting is reduced after the deadline in Section 3.5(g) for delivery of the Proxy Access Notice and before the date of the applicable annual meeting of Stockholders for any reason (including if the Board resolves to reduce the size of the Board before or effective at the annual meeting), the Permitted Number shall be calculated based on the number of Directors to be elected as so reduced. The Permitted Number shall also be reduced by (a) the number of directors in office or director candidates that in either case will be included in the Corporation's proxy materials with respect to such annual meeting as an unopposed (by the Corporation) nominee pursuant to any agreement, arrangement or other understanding with any Shareholder or group of Shareholders (other than any such agreement, arrangement or understanding entered into in connection with an acquisition of Common Stock, by such Shareholder or group of Shareholders, from the Corporation); (b) the number of incumbent director candidates who were previously elected to the Board as Proxy Access Nominees at any of the preceding two annual meetings of stockholders pursuant to this Section 3.5 and who remain members of the Board as of the deadline in Section 3.5(g) for delivery of the Proxy Access Notice and (c) the number of director candidates whose names were submitted for inclusion in the Corporation's proxy materials pursuant to this Section 3.5 for the upcoming annual meeting of Stockholders, but who were thereafter nominated for election at such meeting by the Board.

(ii) If the number of Proxy Access Nominees submitted by Eligible Stockholders pursuant to this Section 3.5 exceeds the Permitted Number, each Eligible Stockholder will select one Proxy Access Nominee for inclusion in the Corporation's proxy materials until the Permitted Number is reached, going in order of the amount (largest to smallest) of shares of Common Stock of the Corporation each Eligible Stockholder disclosed as owned in its Proxy Access Notice submitted to the Corporation. If the Permitted Number is not reached after each Eligible Stockholder has selected one Proxy Access Nominee, this selection process will continue as many times as necessary, following the same order each time, until the Permitted Number is reached. After reaching the Permitted Number of Proxy Access Nominees, if any Proxy Access Nominee who satisfies the eligibility requirements in this Section 3.5 thereafter (a) is nominated by the Board for election at the upcoming annual meeting of Stockholders, (b) is not submitted for election as a Director for any reason (including the failure to comply with or satisfy the eligibility requirements in this Section 3.5) other than due to a failure by the Corporation to include such Proxy Access Nominee in the Corporation's proxy materials in violation of this Section 3.5, (c) withdraws his or her nomination (or his or her nomination is withdrawn by the applicable Eligible Stockholder) or (d) becomes unwilling or otherwise unable to serve on the Board if elected, then, in each such case, no other nominee or nominees shall be included in the Corporation's proxy materials or otherwise submitted for election as a Director pursuant to this Section 3.5 in substitution for such Proxy Access Nominee with respect to the annual meeting of Stockholders.

(iii) Notwithstanding anything to the contrary contained in this Section 3.5, the Corporation shall not be required to include any Proxy Access Nominees in its proxy materials pursuant to this Section 3.5 for any annual meeting of Stockholders for which the Secretary receives a notice that a stockholder intends to nominate one or more persons for election to the Board pursuant to clause (ii) of the first sentence of Section 3.3(b).

(l) Attendance of Eligible Stockholder at Annual Meeting. Notwithstanding the foregoing provisions of this Section 3.5, unless otherwise required by Law or otherwise determined by the Board or the person presiding over the meeting, if none of (i) the Eligible Stockholder or (ii) a Qualified Representative (as defined below) of the Eligible Stockholder appears at the annual meeting of Stockholders to present such Eligible Stockholder's Proxy Access Nominee(s), such nomination or nominations shall be disregarded and conclusively deemed withdrawn, notwithstanding that proxies in respect of the election of the Proxy Access Nominee(s) may have been received by the Corporation. A "Qualified Representative" of an Eligible Stockholder means a person that is a duly authorized officer, manager or partner of such Eligible Stockholder or is authorized by a writing (i) executed by such Eligible Stockholder, (ii) delivered (or a reliable reproduction or electronic transmission of the writing is delivered) by such Eligible Stockholder to the Corporation prior to the taking of the action taken by such person on behalf of such Eligible Stockholder and (iii) stating that such person is authorized to act for such Eligible Stockholder with respect to the action to be taken.

(m) Restrictions on Re-nominations. Any Proxy Access Nominee who is included in the Corporation's proxy materials for a particular annual meeting of Stockholders but either (i) withdraws his or her nomination (or his or her nomination is deemed to have withdrawn pursuant to this Section 3.5), becomes ineligible or unavailable for election at that annual meeting, or is unwilling or otherwise unable to serve on the Board, or (ii) does not receive a number of votes cast in favor of his or her election at least equal to 25% of the votes present in person or represented by proxy and entitled to vote in the election of directors, will be ineligible to be a Proxy Access Nominee pursuant to this Section 3.5 for the next two annual meetings of stockholders.

(n) Duty to Update, Supplement and Correct. Any information required by this Section 3.5 to be provided to the Corporation must be updated and supplemented by the Eligible Stockholder or Proxy Access Nominee, as applicable, by delivery to the Office of the Corporation, addressed to the Secretary, (i) no later than 10 days after the record date for determining the stockholders entitled to vote at the annual meeting of Stockholders, of such information as of such record date and (ii) no later than five days before the annual meeting of Stockholders, of such information as of the date that is 10 days before the annual meeting of Stockholders. Further, in the event that any information or communications provided (pursuant to this Section 3.5 or otherwise) by the Eligible Stockholder or the Proxy Access Nominee to the Corporation or its stockholders ceases to be true and correct in any respect or omits a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, each Eligible Stockholder or Proxy Access Nominee, as the case may be, shall promptly notify the Secretary of any such inaccuracy or omission in such previously provided information and of the information that is required to make such information or communication true and correct. For the avoidance of doubt, the requirement to update, supplement and correct such information shall not permit any Eligible Stockholder or other person to change or add any proposed Proxy Access Nominee or be deemed to cure any defects or limit the remedies (including without limitation under these Bylaws) available to the Corporation relating to any defect (including any inaccuracy or omission).

(o) Exclusive Method. This Section 3.5 shall be the exclusive method for stockholders to include nominees for director election in the Corporation's proxy materials.

3.6. Newly Created Directorships and Vacancies. Subject to the rights of holders of any series of Preferred Stock to elect Directors under specific circumstances, any newly created directorships resulting from an increase in the authorized number of Directors and any vacancies occurring in the Board may be filled by a majority of the Directors then in office, although less than a quorum, or a sole remaining Director. A Director so elected shall be elected to hold office until the earlier of the expiration of the term of office of the Director whom he or she has replaced, a successor is elected and qualified or the Director's earlier death, resignation, disqualification or removal. When one or more Directors shall resign, effective at a future time, a majority of the Directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each Director so chosen shall hold office as provided in this Section 3.6 in the filling of other vacancies.

3.7. Resignation. Any Director may resign at any time by notice given in writing or by electronic transmission to the Board, the Chair or the Secretary. Such resignation shall take effect at the time of receipt of such notice or at such later time, or such later time determined upon the happening of an event, as is therein specified.

3.8. Regular Meetings. Regular meetings of the Board may be held without notice at such times and at such places as may be determined from time to time by the Board.

3.9. Special Meetings. Special meetings of the Board may be held at such times and at such places, if any, as may be determined by the Chair on at least 24 hours' notice to each Director given by one of the means specified in Section 3.12 other than by mail or on at least three days' notice if given by mail. Special meetings shall be called by the Chair or Secretary in like manner and on like notice on the written request of any two or more Directors.

3.10. Telephone Meetings. Board or Board committee meetings may be held by means of telephone conference or other communications equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation by a Director in a meeting pursuant to this Section 3.10 shall constitute presence in person at such meeting.

3.11. Adjourned Meetings. A majority of the Directors present at any meeting of the Board, including an adjourned meeting, whether or not a quorum is present, may adjourn and reconvene such meeting to another time and place. At least 24 hours' notice of any adjourned meeting of the Board shall be given to each Director whether or not present at the time of the adjournment; provided, however, that notice of the adjourned meeting need not be given if (a) the adjournment is for 24 hours or less and (b) the time, place, if any, and means of remote communication, if any, are announced at the meeting at which the adjournment is taken. Any business may be transacted at an adjourned meeting that might have been transacted at the meeting as originally called.

3.12. Notice Procedure. Subject to Sections 3.11 and 3.13, whenever notice is required to be given to any Director by applicable Law, the Certificate of Incorporation or these Bylaws, such notice shall be deemed given effectively if given in person or by telephone, mail addressed to such Director at such Director's address as it appears on the records of the Corporation, telecopy or by electronic mail or other means of electronic transmission. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice of such meeting.

3.13. Waiver of Notice. Whenever the giving of any notice to Directors is required by applicable Law, the Certificate of Incorporation or these Bylaws, a written waiver signed by the Director, or a waiver by electronic transmission by such Director, whether before or after such notice is required, shall be deemed equivalent to notice. Attendance by a Director at a meeting shall constitute a waiver of notice of such meeting except when the Director attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting was not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special Board or committee meeting need be specified in any waiver of notice.

3.14. Chair. The Board shall annually elect from among its members a Chair. The Chair shall preside at all meetings of the Board and shall exercise such powers and perform such other duties as shall be determined from time to time by the Board. Only Directors shall be eligible to be the Chair. The Chair may be an officer of the Company.

3.15. Organization. At each meeting of the Board, the Chair or, in the Chair's absence, the Lead Director, or in the case of the Lead Director's absence therefrom, another director chosen by a majority of directors present, shall act as chair of the meeting and preside thereat. The Secretary shall act as secretary at each meeting of the Board. If the Secretary is absent from any meeting of the Board, the person presiding at the meeting may appoint any person to act as secretary of the meeting.

3.16. Quorum of Directors. The presence of a majority of the total number of Directors then in office shall constitute a quorum for the transaction of business at any meeting of the Board; provided, however, that in no case shall a quorum consist of less than one-third of the total number of Directors that the Corporation would have if there were no vacancies on the Board. The Directors present at a meeting at which a quorum has been established may continue to transact business until adjournment, notwithstanding the withdrawal of enough Directors to leave less than a quorum.

3.17. Action by Majority Vote. Except as otherwise expressly required by these Bylaws or the Certificate of Incorporation, the vote of a majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board.

3.18. Action Without Meeting. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if all Directors or members of such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writings or electronic transmissions are filed with the minutes of proceedings of the Board or committee.

ARTICLE IV

COMMITTEES OF THE BOARD

The Board may designate one or more committees in accordance with Section 141(c) of the DGCL. Unless the Board provides otherwise, at all meetings of such committee, a majority of the then authorized number of members of the committee shall constitute a quorum for the transaction of business, and the vote of a majority of the members of the committee present at any meeting at which there is a quorum shall be the act of the committee. Each committee shall keep regular minutes of its meetings. Unless the Board provides otherwise, each committee designated by the Board may make, alter and repeal rules and procedures for the conduct of its business. In the absence of such rules and procedures each committee shall conduct its business in the same manner as the Board conducts its business pursuant to Article III.

ARTICLE V

OFFICERS

5.1. Positions; Election. The offices of the Corporation shall include a Chief Executive Officer, a President, a Secretary, a Treasurer and any other officers as the Board may elect from time to time, who shall exercise such powers and perform such duties as shall be determined by the Board from time to time. Any number of offices may be held by the same person.

5.2. Term of Office. Each officer of the Corporation shall hold office until such officer's successor is elected and qualified or until such officer's earlier death, resignation or removal. Any officer may resign at any time upon written notice to the Corporation. Such resignation shall take effect at the time of receipt of such notice or at such later time, or at such later time determined upon the happening of an event, as is therein specified. The resignation of an officer shall be without prejudice to the contract rights of the Corporation, if any. Any officer may be removed at any time with or without cause by the Board. Any vacancy occurring in any office of the Corporation may be filled by the Board. The election or appointment of an officer shall not of itself create contract rights, and any resignation or removal of an officer shall be without prejudice to the contract rights, if any, of such officer, the Corporation or any other person.

5.3. Chief Executive Officer. The Chief Executive Officer shall have general supervision over the business of the Corporation and other duties incident to the office of Chief Executive Officer, and any other duties as may from time to time be assigned to the Chief Executive Officer by the Board and subject to the control of the Board in each case. The Chief Executive Officer may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments, except in cases in which the signing and execution thereof shall be expressly delegated by the Board or by these Bylaws to some other officer or agent of the Corporation, or shall be required by applicable Law otherwise to be signed or executed.

5.4. President. The President shall perform all such duties as from time to time may be assigned by the Board, the Chair or the Chief Executive Officer. The President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments, except in cases in which the signing and execution thereof shall be expressly delegated by the Board or by these Bylaws to some other officer or agent of the Corporation, or shall be required by applicable Law otherwise to be signed or executed.

5.5. Vice Presidents. Vice Presidents shall have the duties incident to the office of Vice President and any other duties that may from time to time be assigned to the Vice President by the Chief Executive Officer, the President or the Board. Any Vice President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments, except in cases in which the signing and execution thereof shall be expressly delegated by the Board or by these Bylaws to some other officer or agent of the Corporation, or shall be required by applicable Law otherwise to be signed or executed.

5.6. Secretary. The Secretary shall attend all meetings of the Board and of the Stockholders, record all the proceedings of the meetings of the Board and of the Stockholders in a book to be kept for that purpose and perform like duties for committees of the Board, when required. The Secretary shall give, or cause to be given, notice of all special meetings of the Board and all meetings of the Stockholders and perform such other duties as may be prescribed by the Board, the Chief Executive Officer or the President. The Secretary shall have custody of the corporate seal of the Corporation, if any, and shall have authority to affix the same on any instrument that may require it, and when so affixed, the seal may be attested by the signature of the Secretary. The Board may give general authority to any other officer to affix the seal of the Corporation and to attest the same by such officer's signature. The Secretary may also attest all instruments signed by the Chief Executive Officer, the President or any Vice President. The Secretary shall have charge of all the books, records and papers of the Corporation relating to its organization and management, see that the reports, statements and other documents required by applicable Law are properly kept and filed and, in general, perform all duties incident to the office of secretary of a corporation and such other duties as may from time to time be assigned to the Secretary by the Board, the Chief Executive Officer or the President.

5.7. Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds, securities and notes of the Corporation, receive and give receipts for moneys due and payable to the Corporation from any sources whatsoever; deposit all such moneys and valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board, against proper vouchers, cause such funds to be disbursed by checks or drafts on the authorized depositories of the Corporation signed in such manner as shall be determined by the Board and be responsible for the accuracy of the amounts of all moneys so disbursed, regularly enter or cause to be entered in books or other records maintained for the purpose full and adequate account of all moneys received or paid for the account of the Corporation, have the right to require from time to time reports or statements giving such information as the Treasurer may desire with respect to any and all financial transactions of the Corporation from the officers or agents transacting the same, render to the Chief Executive Officer, the President or the Board, whenever the Chief Executive Officer, the President or the Board shall require the Treasurer so to do, an account of the financial condition of the Corporation and of all financial transactions of the Corporation, disburse the funds of the Corporation as ordered by the Board and, in general, perform all duties incident to the office of Treasurer of a corporation and such other duties as may from time to time be assigned to the Treasurer by the Board, Chief Executive Officer or the President.

5.8. Actions with Respect to Securities of Other Entities. All stock and other securities of other entities owned or held by the Corporation for itself, or for other parties in any capacity, shall be voted (including by written consent), and all proxies with respect thereto shall be executed, by the person or persons authorized to do so by resolution of the Board or, in the absence of such authorization, by the Chair, the Chief Executive Officer, the President, the Secretary or the Treasurer.

ARTICLE VI

INDEMNIFICATION

6.1. Right to Indemnification. The Corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable Law as it presently exists or may hereafter be amended, any person (a “Covered Person”) who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a “Proceeding”), by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director or officer of the Corporation or, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, employee or agent of another entity or enterprise, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement (except for judgments, fines and amounts paid in settlement in any action or suit by or in the right of the Corporation to procure a judgment in its favor) actually and reasonably incurred by such Covered Person. Notwithstanding the preceding sentence, except as otherwise provided in Section 6.3, the Corporation shall be required to indemnify a Covered Person in connection with a Proceeding (or part thereof) commenced by such Covered Person only if the commencement of such Proceeding (or part thereof) by the Covered Person was authorized by the Board.

6.2. Prepayment of Expenses. To the extent not prohibited by applicable Law, the Corporation shall pay the reasonable expenses (including attorneys’ fees) incurred by a Covered Person in defending any Proceeding in advance of its final disposition; provided, however, that, to the extent required by applicable Law, such payment of reasonable expenses in advance of the final disposition of the Proceeding shall be made only upon receipt of an undertaking by the Covered Person to repay all amounts advanced if it should be ultimately determined that the Covered Person is not entitled to be indemnified under this Article VI or otherwise.

6.3. Claims. If a claim for indemnification or advancement of expenses under this Article VI is not paid in full within 30 days after a written claim therefor by the Covered Person has been received by the Corporation, the Covered Person may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Corporation shall have the burden of proving that the Covered Person is not entitled to the requested indemnification or advancement of expenses under applicable Law.

6.4. Nonexclusivity of Rights. The rights conferred on any Covered Person by this Article VI shall not be exclusive of any other rights that such Covered Person may have or hereafter acquire under any statute, provision of these Bylaws, the Certificate of Incorporation, agreement, vote of stockholders or disinterested directors or otherwise.

6.5. Other Sources. The Corporation's obligation, if any, to indemnify or to advance expenses to any Covered Person who was or is serving at its request as a director, officer, employee or agent of another entity or enterprise shall be reduced by any amount such Covered Person may collect as indemnification or advancement of expenses from such other entity or enterprise.

6.6. Amendment or Repeal. Any amendment or repeal of the foregoing provisions of this Article VI shall not adversely affect any right or protection hereunder of any Covered Person in respect of any act or omission occurring prior to the time of such amendment or repeal.

6.7. Other Indemnification and Prepayment of Expenses. This Article VI shall not limit the right of the Corporation, to the extent and in the manner permitted by applicable Law, to indemnify and to advance expenses to persons other than Covered Persons when and as authorized by appropriate corporate action.

ARTICLE VII

GENERAL PROVISIONS

7.1. Certificates Representing Shares. The shares of stock of the Corporation shall be represented by certificates, provided that the Board may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. If shares are represented by certificates (if any) such certificates shall be in the form approved by the Board. Every holder of stock represented by certificates shall be entitled to have a certificate signed by, or in the name of, the Corporation by any two authorized officers of the Corporation. Any or all such signatures may be facsimiles. Although any officer, transfer agent or registrar whose manual or facsimile signature is affixed to such a certificate ceases to be such officer, transfer agent or registrar before such certificate has been issued, it may nevertheless be issued by the Corporation with the same effect as if such officer, transfer agent or registrar were still such at the date of its issue.

7.2. Transfer and Registry Agents. The Corporation may from time to time maintain one or more transfer offices or agents and registry offices or agents at such place or places as may be determined from time to time by the Board.

7.3. Lost, Stolen or Destroyed Certificates. The Corporation may issue a new certificate of stock in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate or his legal representative to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

7.4. Form of Records. Any records administered by or on behalf of the Corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or by means of, or be in the form of, any information storage device, method, or one or more electronic networks or databases (including one or more distributed electronic networks or databases); provided that the records so kept can be converted into clearly legible paper form within a reasonable time, and, with respect to the stock ledger, that the records so kept (i) can be used to prepare the list of stockholders specified in Sections 219 and 220 of the DGCL, (ii) record the information specified in Sections 156, 159, 217(a) and 218 of the DGCL and (iii) record transfers of stock as governed by Article 8 of the Uniform Commercial Code as enacted in the State of Delaware, 6 *Del. C.* §§8-101 *et seq.* The Corporation shall convert any records so kept into clearly legible paper form upon the request of any person entitled to inspect such records pursuant to any provision of the DGCL.

7.5. Seal. The Corporation may have a corporate seal, which shall be in such form as may be approved from time to time by the Board. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

7.6. Fiscal Year. The fiscal year of the Corporation shall be determined by the Board.

7.7. Time Periods. In applying any provision of these Bylaws which require that an act be done or not done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used unless otherwise specified, the day of the doing of the act shall be excluded, and the day of the event shall be included.

7.8. Amendments. These Bylaws may be amended or repealed and new Bylaws may be adopted by the Board, but the Stockholders may make additional Bylaws and may alter and repeal any Bylaws whether such Bylaws were originally adopted by them or otherwise.

7.9. Conflict with Applicable Law or Certificate of Incorporation. These Bylaws are adopted subject to any applicable Law and the Certificate of Incorporation. Whenever these Bylaws may conflict with any applicable Law or the Certificate of Incorporation, such conflict shall be resolved in favor of such Law or the Certificate of Incorporation.



Office of the Senior Vice President
Human Resources

1 New Orchard Road
Armonk, NY 10504

January 2, 2021

Dear Martin,

I am delighted to extend an offer of employment to you at IBM as Chief Executive Officer, NewCo, currently the Managed Infrastructure Services unit of Global Technology Services (excluding TSS) effective January 15, 2021 (the "Hire Date").

The attachment outlines the specifics of our offer. I am extremely excited about your joining the IBM team.

Please indicate your acceptance of this offer by signing and returning the letter along with the Noncompetition Agreement to me via email.

Sincerely,

/s/ Nickle LaMoreaux

Nickle LaMoreaux
Senior Vice President and Chief Human Resources Officer,
IBM Human Resources

January 2, 2021
Martin Schroeter

Attachments

This letter confirms our offer of IBM employment to you as Chief Executive Officer, NewCo, reporting to Arvind Krishna, Chief Executive Officer, IBM. Your primary responsibilities will be to ensure completion of The Transaction, as described below, and other responsibilities as agreed upon between you and IBM's Chief Executive Officer. The elements of your employment offer are:

Cash Compensation:

Effective on your first day of employment, your annualized base salary will be \$1,000,000.00, and you will have an opportunity to receive a \$2,000,000.00 bonus as set forth below. This is in addition to your participation in the IBM benefits plans. As an employee, you will receive a paycheck on a semi-monthly basis, on or around the 15th and 31st of each month. For 2021, your base salary will be prorated to reflect your actual IBM service.

In connection with IBM's announced intention to spin-off the Managed Infrastructure Services unit of its IBM Global Technology Services (GTS) business and organization (excluding TSS) as a separate publicly listed company with IBM no longer owning any stake in the new company (the separate publicly listed company referred to as "NewCo", and the spin-off referred to as "The Transaction"), which will occur on the date of the closing of such spin-off (referred to as "The Closing Date"), your bonus payment will depend on your successful completion of The Transaction. If achieved, your bonus will be paid no later than February 1, 2022. You must be an active employee on The Closing Date in order to be eligible to receive the bonus payout.

While IBM intends for The Transaction to be completed by December 31, 2021, if The Transaction is not completed by such date, IBM's Chief Executive Officer may in his discretion decide to pay the bonus in full and such payment shall be made no later than February 1, 2022, provided you are an active employee of IBM or Newco on such payment date.

Additionally, you shall receive the bonus if the Transaction is not completed by December 31, 2021 for reasons beyond your reasonable control and your employment is terminated without Cause (as defined in the Noncompetition Agreement).

Please note, if prior to December 31, 2021 for strategic business reasons, (A) IBM unilaterally determines and formally announces that it will not complete The Transaction, or (B) if NewCo is sold to another buyer, and in both cases, the IBM CEO determines that the decision not to complete The Transaction or sell to another buyer was not made as a result of your performance in moving The Transaction to closure, you will be eligible to receive the bonus payment one month following the later of: (1) IBM's formal announcement to not complete The Transaction ("Announcement Date"), or, (2) the closing date of the sale of NewCo ("Sale Date"). You must be an active employee on the Announcement Date or the Sale Date, as applicable, in order to be eligible to receive the bonus payout.

January 2, 2021
Martin Schroeter

New Hire Equity:

You will be awarded a new hire equity grant of \$10,500,000.00 in planned value. You will receive 100% of this planned value as a special Performance Share Unit (PSU) award. Your award will be granted on the 1st of the month following your Hire Date, or as soon as practical thereafter. The number of PSUs granted will be determined by dividing the planned grant value by the average of IBM's closing stock price for the 30 active trading days prior to the date of grant.

In order to vest in your PSU award, you must meet two performance criteria ("Performance Criteria"), or be excused for the non-performance:

1. You (a) successfully complete The Transaction as envisaged by no later than January 1, 2023 or (b) you are excused from completing the Transaction as envisaged for reasons beyond your reasonable control as described in the Terms and Conditions document provided with this offer letter; or (c) your employment is terminated without Cause (as such term is defined in your Noncompetition Agreement) by IBM.
2. Immediately following The Closing Date you accept employment as the Chief Executive Officer of NewCo, provided this performance criterion is excused if the NewCo Board of Directors does not appoint you as Chairman of the Board of Directors, or if NewCo's offer of employment is not comparable in the aggregate to the terms of this offer letter, including your annual salary, bonus, and equity award.

PSUs are subject to the terms and conditions of the applicable IBM Long-Term Performance Plan, along with the Preliminary Award Agreement and Terms and Conditions document that is being provided with this offer letter. A final Award Agreement that indicates the number of PSUs granted will be provided after the grant date of your PSU award.

If the performance criteria described above are satisfied or excused, your award will generally vest and be released 33% on the six month anniversary of The Closing Date, 33% on the 1st anniversary of The Closing Date, and 34% on the 2nd anniversary of The Closing Date, assuming all other conditions in your equity award agreement and its incorporated terms and conditions are met.

If as of The Closing Date the fair market value of the IBM shares underlying your PSU award (the "IBM PSU Share Value") is less than \$10,500,000 by \$50,000 or more, then immediately after The Closing Date, provided that the Performance Criteria have been met, or excused, NewCo shall grant an RSU award to you with respect to a number of shares of NewCo common stock with a value on the date of grant equal to the difference between (a) \$10,500,000; and (b) IBM PSU Share Value ("Value Difference"). Such RSU grant shall be released on the same schedule as the PSU award described above.

January 2, 2021
Martin Schroeter

If instead of The Transaction, NewCo is sold to another buyer, and as of the Sale Date the IBM PSU Share Value is less than \$10,500,000 by \$50,000 or more, and you accept employment with the buyer, then the buyer shall grant an RSU award, or substantially equivalent cash or equity based award in an affiliate of buyer, with a value equal to the Value Difference (determined using the IBM PSU Share Value on the Sale Date), with the award being released on the same schedule as the PSU award.

Termination Notice

Your employment is at-will but you may not resign for any reason and your employment may not be terminated for any reason without first having given the other party 60 days written notice of resignation or termination. Payments that would ordinarily be made during that 60 day notice period shall continue to be made during such notice period, awards that are scheduled to vest under the applicable award agreement and terms and conditions document during the 60 day notice period, shall vest as scheduled, and employee benefits shall continue in accordance with the terms of such plans during that 60 day notice period.

Benefits:

During your employment, you will be eligible to participate in the various benefit plans which IBM generally makes available to its regular employees, including medical and dental coverage, accident, disability and life insurance, as well as the IBM 401(k) Plus Plan. After you complete one year of IBM service, this Plan offers a 100% Company match, up to 5% of eligible pay, plus a 1% automatic contribution. In addition, if you meet certain eligibility requirements during the annual enrollment period held each fall, you may also be eligible to participate in the IBM Excess 401(k) Plus Plan that provides benefits in excess of the IRS limits. Additional details on these programs will be provided separately. For detailed information on IBM Health Care benefits, visit the Health Care Benefits at IBM site at <http://www.ibm.com/employment/us/benefits/>.

If you have additional benefits questions after visiting our website, please contact Paul Dunkle.

Additionally, the Affordable Care Act (ACA) requires companies to provide employees with a Notice of Exchanges which discusses the Health Insurance Marketplace; a public option where individuals may purchase health care coverage. This notice is attached for your information.

January 2, 2021
Martin Schroeter

As is customary at IBM, this offer is contingent upon the completion of our pre-employment process, including verification of your application materials and your ability to work for IBM without restriction (which means you do not have non-compete obligations or other restrictive clause with your current or former employer; or any non-compete or other restrictions have been disclosed by you and resolved to IBM's satisfaction).

IBM employees are required to comply with IBM's Business Conduct Guidelines. Once you have authorized access to the IBM Intranet, you will be able to read and/or print the contents of these documents, and will be required to acknowledge receipt and compliance with the guidelines.

U.S. Laws and regulations prohibit the unauthorized release of restricted technology to certain persons. IBM, in order to comply with these legal requirements, must ascertain whether someone who may be given access to restricted technology is a "Foreign Person" subject to these export control restrictions. If someone is a Foreign Person for export control purposes, then he/she may need to be granted an export license or other government authorization before starting in a position with access to restricted technology. Therefore, if you indicated that you are a Foreign Person on your employment application (by answering "no" to the question "Are you a U.S. citizen or national, a permanent resident?" or "yes" to the question "Are you a refugee, an asylee or authorized to work under the amnesty provisions of U.S. immigration law?"), you will be contacted by a member of IBM's Recruitment organization who will ask for your country(s) of citizenship and permanent residence. Your country(s) of citizenship and permanent residence will enable IBM to determine the type of export license which would be required, should you be placed in a position with access to restricted technology. Our ability to obtain an export license for you may be a factor in IBM's decision to continue with your pre-employment process, depending on the staffing needs of the hiring manager.

For tax and payroll purposes, you will require a Social Security Number. If you do not have one, you must apply for a number at your Social Security Administration Office before your first day of employment. Also, please note that IBM may be required to withhold federal tax at a different rate based upon your alien residency tax filing status. For more information on this, please review IRS Publication 519 before completing the W4 from, <http://www.irs.gov/publications/p519/ch01.html>. If you are a nonresident alien, you will need to complete the W-4 form using the provided instructions on your first day of work, <http://www.irs.gov/publications/p519/ch08.html>.

January 2, 2021
Martin Schroeter

Your employment is also contingent upon your compliance with the U.S. immigration law. The law requires you to complete the U.S. Government Employment Eligibility Verification form (I-9) and to provide on your first day of employment documents that verify your identity and employment eligibility. By accepting this offer, you will be required to comply with this law. The terms of this letter are not a contract of employment and do not imply employment for any specific period of time. Rather, employment at IBM is at-will, which means that either you or IBM may terminate your employment at any time, for any reason and without prior notice, subject to the provisions of this offer letter. No modification of this at-will status is valid unless contained in writing signed by two authorized representatives of IBM.

On your first day of employment you will be required to sign IBM's form regarding confidential information and intellectual property. If you would like to review or discuss this document in advance, please contact Paul Dunkle.

Accepted: /s/ Martin Schroeter

Date: 1/3/21

Projected Start Date: Jan. 15, 2021

Long-Term Incentive Award Acceptance Information

Dear Martin Schroeter:

IBM's grants to you become effective only after, and are conditioned upon your accepting the terms and conditions of the award agreements, the accompanying "Terms and Conditions of Your Equity Award Effective December 15, 2020" ("Terms and Conditions") document attached below and the Long-Term Performance Plan ("LTTP") under which these long-term incentive awards are granted, including those provisions relating to the cancellation and rescission of awards.

If you have not read the LTTP prospectus that governs your equity awards, please do so by viewing the "Prospectuses" section of the executive compensation web site (http://w3.ibm.com/hr/exec/comp/eq_prospectus.html). The prospectus contains the terms of the LTTP and is the legal offering document covering IBM's stock-based awards, and you should read it before accepting your grant. In the event of any conflict between the terms of the LTTP and the information provided on this screen, the LTTP shall govern.

To record your acceptance and agreement to the terms and conditions of your award, you must press the ACCEPT button below. By pressing the ACCEPT button below, you are certifying that you have read and understand the terms and conditions of each award agreement, the Terms and Conditions document and the LTTP covering each stock-based award listed here, and that you accept and agree to all the relevant terms and conditions.

Until you formally accept your award, Restricted Stock Units and/or Performance Share Units will not be released to you or settled at vesting and Stock Options will not be exercisable. In addition, after you accept your award and your RSU or PSU award vests, the shares (net of taxes where applicable) will typically be available for sale, and/or transfer at <https://www.stockplanconnect.com/> within 2 business days from the vesting and/or payout date, as applicable. As described in the plan documents, the Company withholds taxes from your award (and/or reports income) as required by local laws. In some countries, the Company does not withhold taxes because there is no requirement to do so. Irrespective of any withholding and/or reporting by the Company, it is important for you to consult with your personal tax advisor to satisfy your individual tax obligations.

| Award Type | Award Date | Shares / Units | Long-Term Performance Plan |
|--------------------------------|------------------|----------------|----------------------------|
| Performance Share Units (PSUs) | February 1, 2021 | 83,723 | 1999 |

International Business Machines Corporation ("IBM")

Equity Award Agreement

IBM Confidential

Plan IBM 1999 Long-Term Performance Plan (the "Plan")

Award Type Performance Share Units (PSUs)

Purpose The purpose of this Award is to retain selected executives. You recognize that this Award represents a potentially significant benefit to you and is awarded for the purpose stated here .

Awarded to Martin Schroeter

Home Country United States (USA) 0216989

Award Agreement This Equity Award Agreement, together with the "Terms and Conditions of Your Equity Award: Effective December 15, 2020" ("Terms and Conditions") document and the Plan http://w3.ibm.com/hr/exec/comp/eq_prospectus.shtml , both of which are incorporated herein by reference, together constitute the entire agreement between you and IBM with respect to your Award . This Equity Award Agreement shall be governed by the laws of the State of New York, without regard to conflicts or choice of law rules or principles.

| Grant | Date of Grant | # PSUs Awarded |
|--------------|----------------------|-----------------------|
| | February 1, 2021 | 83,723 |

Vesting In connection with IBM's announced intention to spin-off the Managed Infrastructure Services Unit of its IBM Global Technology Services (GTS) business and organization (excluding TSS) as a separate publicly listed company (the separate publicly listed company referred to as "NewCo" and the spin-off referred to as "The Transaction"), which will occur on the date of the closing of such spin-off (referred to as "The Closing Date"). You can earn the PSUs awarded above, provided both of the following "Performance Criteria" have been met:

1. You ensure successful completion of The Transaction as envisaged (for the avoidance of doubt, as a spin-off of the Managed Infrastructure Services Unit of the GTS business (excluding TSS)), with IBM no longer owning any equity stake in NewCo following The Closing Date of The Transaction ; and
2. You accept employment as Chief Executive Officer of NewCo immediately following The Closing Date of The Transaction

If both of the above Performance Criteria are satisfied as determined by the IBM Chief Executive Officer, your awards will be converted into shares of NewCo Restricted Stock Units (RSUs) according to the stated conversion formula for all unvested IBM equity awards on or around The Closing Date, and will vest in accordance with the following schedule:

- 33% on the six-month anniversary of The Closing Date
- 33% on the 1st anniversary of The Closing Date
- 34% on the 2nd anniversary of The Closing Date

Payout of Awards Following the vesting dates described above, the Company or NewCo shall deliver to you a number of shares of Capital Stock equal to the number of your earned RSUs, net of any applicable tax withholding, and the respective PSUs shall thereafter be canceled.

All payouts under this Award are subject to the provisions of the Plan, this Agreement and the Terms and Conditions document, including those relating to the cancellation and rescission of awards.

International Business Machines Corporation ("IBM")

Equity Award Agreement

**Terms and
Conditions of Your
Equity Award**

Refer to the Terms and Conditions document attached for an explanation of the terms and conditions applicable to your Award, including those relating to:

- Cancellation and rescission of awards (also see below)
- Jurisdiction, governing law, expenses and taxes
- Non-solicitation of Company employees and clients, if applicable
- Treatment of your award in the event the Performance Criteria above cannot be met , including Performance Criteria that cannot be met by no fault of your own
- Treatment of your Award in the event of death or disability or leave of absence
- Treatment of your Award upon termination of employment, including for cause, and under all other circumstances.

It is strongly recommended that you print the Terms and Conditions document for later reference .

**Cancellation and
Rescission**

You understand that IBM may cancel, modify, rescind, suspend, withhold or otherwise limit or restrict this Award in accordance with the terms of the Plan, including, without limitation, canceling or rescinding this Award if you render services for a competitor prior to, or during the Rescission Period. You understand that the Rescission Period that has been established is 12 months. Refer to the Terms and Conditions document and the Plan for further details.

**Data Privacy,
Electronic Delivery**

By accepting this Award, you agree that data, including your personal data, necessary to administer this Award may be exchanged among IBM and its subsidiaries and affiliates as necessary, and with any vendor engaged by IBM to administer this Award, subject to the Terms and Conditions document; you also consent to receiving information and materials in connection with this Award or any subsequent awards under IBM's long-term performance plans, including without limitation any prospectuses and plan documents, by any means of electronic delivery available now and/or in the future (including without limitation by e-mail, by Web site access and/or by facsimile), such consent to remain in effect unless and until revoked in writing by you.

**Extraordinary
Compensation**

Your participation in the Plan is voluntary. The value of this Award is an extraordinary item of income, is not part of your normal or expected compensation and shall not be considered in calculating any severance, redundancy, end of service payments, bonus, long-service awards, pension, retirement or other benefits or similar payments. The Plan is discretionary in nature. This Award is a one-time benefit that does not create any contractual or other right to receive additional awards or other benefits in the future. Future grants, if any, are at the sole grace and discretion of IBM, including but not limited to, the timing of the grant, the number of units and vesting provisions. This Equity Award Agreement is not part of your employment agreement, if any.

Equity Award Agreement

Accept Your Award This Award is considered valid when you accept it. This Award will be cancelled unless you accept it by 11:59 p.m. Eastern time two business days prior to The Closing Date. By pressing the Accept button below to accept your Award, you acknowledge having received and read this Equity Award Agreement, the Terms and Conditions document and the Plan under which this Award was granted and you agree (i) not to hedge the economic risk of this Award or any previously-granted outstanding awards, which includes entering into any derivative transaction on IBM securities (e.g., any short sale, put, swap, forward, option, collar, etc.), (ii) to comply with the terms of the Plan, this Equity Award Agreement and the Terms and Conditions document, including those provisions relating to cancellation and rescission of awards and jurisdiction and governing law, and (iii) that by your acceptance of this Award, all awards previously granted to you under the Plan or other IBM Long -Term Performance Plans are subject to (A) jurisdiction, governing law, expenses, taxes and administration section of the Terms and Conditions document (unless you are, and have been for at least 30 days immediately preceding, a resident of or an employee in Massachusetts at the time of the termination of your employment with IBM, in which case the jurisdiction, governing law, expenses, taxes and administration terms of your previous awards shall apply) and (B) any cancellation, rescission or recovery required by applicable laws, rules, regulations or standards, including without limitation any requirements or standards of the U.S. Securities and Exchange Commission or the New York Stock Exchange.

IBM

TERMS AND CONDITIONS OF YOUR EQUITY

AWARD:

EFFECTIVE December 15, 2020

Terms and Conditions of Your Equity Award

Table of Contents

| | |
|--|-----------|
| Introduction | 3 |
| How to Use This Document | 3 |
| Definition of Terms | 4 |
| Provisions that apply to all countries | 6 |
| Provisions that apply to select countries | 8 |
| Provisions that apply to the Performance Share Units (PSUs) | 9 |
| a. Performance Share Units (“PSUs”) including Cash-Settled PSUs | 9 |
| Provisions that apply to specific countries | 10 |
| a. Denmark | 10 |
| b. Israel | 10 |
| c. United States | 10 |

Terms and Conditions of Your Equity Award

Introduction

This document provides you with the terms and conditions of your Award that are in addition to the terms and conditions contained in your Equity Award Agreement for your specific Award. Also, your Award is subject to the terms and conditions in the governing plan document; the applicable document is indicated in your Equity Award Agreement and can be found at https://w3cms.s3-api.us-geo.objectstorage.softlayer.net/inline-files/LTPP_1999_august_2007_prospectus.pdf.

How to Use This Document

Terms and conditions that apply to all awards in all countries can be found on page 6. Review these in addition to any award- or country-specific terms and conditions that may be listed. Once you have reviewed these general terms, check in your Equity Award Agreement for any award-specific and/or country-specific terms that apply to your Award.

Terms and Conditions of Your Equity Award:

Definition of Terms

The following are defined terms from the Long-Term Performance Plan, your Equity Award Agreement, or this Terms and Conditions document. These are provided for your information. In addition to this document, see the Plan prospectus and your Equity Award Agreement for more details.

"Awards" -- The grant of any form of stock option, stock appreciation right, stock or cash award, whether granted singly, in combination or in tandem, to a Participant pursuant to such terms, conditions, performance requirements, limitations and restrictions as the Committee may establish in order to fulfill the objectives of the Plan.

"Board" -- The Board of Directors of International Business Machines Corporation ("IBM").

"Capital Stock" -- Authorized and issued or unissued Capital Stock of IBM, at such par value as may be established from time to time.

"Committee" -- The committee designated by the Board to administer the Plan.

"Company" -- IBM and its affiliates and subsidiaries including subsidiaries of subsidiaries and partnerships and other business ventures in which IBM has an equity interest.

"Engage in or Associate with" includes, without limitation, engagement or association as a sole proprietor, owner, employer, director, partner, principal, joint venture, associate, employee, member, consultant, or contractor. This also includes engagement or association as a shareholder or investor during the course of your employment with the Company, and includes beneficial ownership of five percent (5%) or more of any class of outstanding stock of a competitor of the Company following the termination of your employment with the Company.

"Equity Award Agreement" -- The document provided to the Participant which provides the grant details.

"Fair Market Value" -- The average of the high and low prices of Capital Stock on the New York Stock Exchange for the date in question, provided that, if no sales of Capital Stock were made on said exchange on that date, the average of the high and low prices of Capital Stock as reported for the most recent preceding day on which sales of Capital Stock were made on said exchange.

"NewCo" -- Referred to as the working name of the envisaged new company that is created as a result of IBM spinning-off the Managed Infrastructure Services Unit of its IBM Global Technology Services (GTS) business and organization (excluding TSS) as a separate publicly listed company, with IBM no longer owning any equity stake in the new company.

"Participant" -- An individual to whom an Award has been made under the Plan. Awards may be made to any employee of, or any other individual providing services to, the Company. However, incentive stock options may be granted only to individuals who are employed by IBM or by a subsidiary corporation (within the meaning of section 424(f) of the Code) of IBM, including a subsidiary that becomes such after the adoption of the Plan.

“Performance Team” -- For purposes of the Plan, the Performance Team refers to the team of IBM’s senior leaders who run IBM Business Units or geographies, including the chairman and CEO. The CEO selects and invites these senior leaders to join the Performance Team.

“Plan” -- Any IBM Long-Term Performance Plan.

“Termination of Employment” -- For the purposes of determining when you cease to be an employee for the cancellation of any Award, a Participant will be deemed to be terminated if the Participant is no longer employed by IBM or a subsidiary corporation that employed the Participant when the Award was granted unless approved by a method designated by those administering the Plan.

“The Announcement Date” – If applicable, the date that IBM formally announces that it will not complete the spin-off of the Managed Infrastructure Services Unit of its IBM Global Technology Services business and organization (excluding TSS) as a separate publicly listed company, with IBM no longer owning any equity stake in the new company.

“The Closing Date” – The date that IBM completes the spin-off of the Managed Infrastructure Services Unit of its IBM Global Technology Services (GTS) business and organization (excluding TSS) as a separate publicly listed Company, with IBM no longer owning any equity stake in the new company.

“The Sale Date” – If applicable, the date that IBM completes the sale of the Managed Infrastructure Services Unit of its IBM Global Technology Services business and organization (excluding TSS) to another buyer (rather than being spun-off as a separate publicly listed company).

“The Transaction” – The spin-off of the Managed Infrastructure Services Unit of IBM’s Global Technology Services business and organization (excluding TSS) as a separate publicly listed company, with IBM no longer owning any equity stake in the new company.

Terms and Conditions of Your Equity Award:

Provisions that apply to all countries

The following provisions apply to all countries and for the following Award types: Performance Share Units and Cash-Settled Performance Share Units.

Cancellation and Rescission

All determinations regarding enforcement, waiver or modification of the cancellation and rescission and other provisions of the Plan and your Equity Award Agreement (including the provisions relating to termination of employment, death and disability) shall be made in IBM's sole discretion. Determinations made under your Equity Award Agreement and the Plan need not be uniform and may be made selectively among individuals, whether or not such individuals are similarly situated.

You agree that the cancellation and rescission provisions of the Plan and your Equity Award Agreement are reasonable and agree not to challenge the reasonableness of such provisions, even where forfeiture of your Award is the penalty for violation. Engaging in Detrimental Activity (as defined in the Plan) may result in cancellation or rescission of your Award. Detrimental Activity includes your acceptance of an offer to Engage in or Associate with any business which is or becomes competitive with the Company.

Jurisdiction, Governing Law, Expenses, Taxes and Administration

Your Equity Award Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to its conflict of law rules. You agree that any action or proceeding with respect to your Equity Award Agreement shall be brought exclusively in the state and federal courts sitting in New York County or, Westchester County, New York. You agree to the personal jurisdiction thereof, and irrevocably waive any objection to the venue of such action, including any objection that the action has been brought in an inconvenient forum.

If any court of competent jurisdiction finds any provision of your Equity Award Agreement, or portion thereof, to be unenforceable, that provision shall be enforced to the maximum extent permissible so as to effect the intent of the parties, and the remainder of your Equity Award Agreement shall continue in full force and effect.

If you or the Company brings an action to enforce your Equity Award Agreement and the Company prevails, you will pay all costs and expenses incurred by the Company in connection with that action and in connection with collection, including reasonable attorneys' fees.

If the Company, in its sole discretion, determines that it has incurred or will incur any obligation to withhold taxes as a result of your Award, without limiting the Company's rights under Section 9 of the Plan, the Company may withhold the number of shares that it determines is required to satisfy such liability and/or the Company may withhold amounts from other compensation to the extent required to satisfy such liability under federal, state, provincial, local, foreign or other tax laws. To the extent that such amounts are not withheld, the Company may require you to pay to the Company any amount demanded by the Company for the purpose of satisfying such liability.

If the Company changes the vendor engaged to administer the Plan, you consent to moving all of the shares you have received under the Plan that is in an account with such vendor (including unvested and previously vested shares), to the new vendor that the Company engages to administer the Plan. Such consent will remain in effect unless and until revoked in writing by you.

Terms and Conditions of Your Equity Award:

Provisions that apply to select countries

The following provisions apply to select countries and for the following Award types, Performance Share Units and Cash-Settled Performance Share Units, granted to all individuals in all countries except those with a home country of Latin America, specifically: Argentina, Bolivia, Brazil, Chile, Columbia, Costa Rica, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

Non-Solicitation

In consideration of your Award, you agree that during your employment with the Company and for two years following the termination of your employment for any reason, you will not directly or indirectly hire, solicit or make an offer to any employee of the Company to be employed or perform services outside of the Company. Also, you agree that during your employment with the Company and for one year following the termination of your employment for any reason, you will not directly or indirectly, solicit, for competitive business purposes, any customer of the Company with which you were involved as part of your job responsibilities during the last year of your employment with the Company. By accepting your Award, you acknowledge that the Company would suffer irreparable harm if you fail to comply with the foregoing, and that the Company would be entitled to any appropriate relief, including money damages, equitable relief and attorneys' fees.

Terms and Conditions of Your Equity Award:

Provisions that apply to the Performance Share Units (PSUs) for all countries

a. Performance Share Units (“PSUs”) including Cash-Settled PSUs

Treatment of your Award in the Event that the Performance Criteria cannot be met

Performance Criteria are not met because IBM unilaterally determines that The Transaction will no longer be completed as envisaged

If for strategic business reasons, IBM unilaterally decides to formally change course and announces that it will not move forward with The Transaction as envisaged (The Announcement Date), and the IBM Chief Executive Officer determines that the decision to change course was not made as a result of your performance in moving The Transaction to closure, IBM agrees that you satisfied the Performance Criteria of your Equity Award Agreement upon your termination of employment with IBM, and your PSUs will be released on the following schedule after The Announcement Date:

- 33% on the 6 month anniversary of The Announcement Date
- 33% on the 1st anniversary of The Announcement Date
- 34% on the 2nd anniversary of The Announcement Date

Performance Criteria are not met because NewCo is purchased by another buyer

If, during the course of completing The Transaction, NewCo is purchased by another buyer, and you are selected and agree to become NewCo’s Chief Executive Officer immediately following the sale of NewCo, IBM agrees that you satisfied the Performance Criteria of your Equity Award Agreement and your PSUs will convert to NewCo RSUs or a substantially equivalent cash or equity-based award in an affiliate of buyer and vest in accordance with your Equity Award agreement.

If, however, if NewCo is purchased by another buyer, and the IBM Chief Executive Officer determines that the decision to sell to another buyer was not made as a result of your performance in moving The Transaction to closure, but you were either (1) NOT selected to become NewCo’s Chief Executive Officer, or (2) were selected to become NewCo’s Chief Executive Officer but you decline the offer, IBM agrees that you satisfied the Performance Criteria of your Equity Award agreement upon your termination of employment with IBM, and your PSUs will be released on the following schedule after The Sale Date:

- 33% on the 6 month anniversary of the Sale Date
- 33% on the 1st anniversary of The Sale Date
- 34% on the 2nd anniversary of The Sale Date

Performance Criteria not met Due to Termination by IBM without Cause

If prior to completion of The Transaction or prior to The Sale Date, IBM terminates your employment without Cause (as such term is defined in section 2 of your Noncompetition Agreement), IBM agrees that you satisfied the Performance Criteria of your Equity Award Agreement upon your termination of employment, and your PSUs will be released on the following schedule after the date of your termination from employment (the "Termination Date"):

- 33% on the 6 month anniversary of The Termination Date
- 33% on the 1st anniversary of The Termination Date
- 34% on the 2nd anniversary of The Termination Date

Performance Criteria not met Due Lack of Comparable Offer of Employment or Not Selected to be Chairman of the Board:

If The Transaction is completed, and you do not accept employment with NewCo because

(i) you are not selected to be NewCo's Chairman of the Board; or (ii) the offer of employment is not comparable in the aggregate with your annual salary, bonus and equity award in effect at the time of the Transaction, IBM agrees that you satisfied the Performance Criteria of your Equity Award Agreement upon your termination of employment, and your PSUs will be released on the following schedule after the date of your termination from employment (the "Termination Date"):

- 33% on the 6 month anniversary of The Termination Date
- 33% on the 1st anniversary of The Termination Date
- 34% on the 2nd anniversary of The Termination Date

Performance Criteria not met for other reasons

If, other than by death or disability described below, your performance conditions are not met for any other reason by January 1, 2023, your PSUs will be cancelled when the performance criteria have been determined to have not been met.

Termination of Employment, including Death and Disability, and Leave of Absence

Termination of Employment and Leave of Absence

If you cease to be an active employee for any reason (other than on account of death or are disabled as described in Section 12 of the Plan) before they vest in accordance with the terms of your Equity Award Agreement, all PSUs are canceled immediately.

Death or Disability

Prior to the Date of Payout, (i) in the event of your death or (ii) if you are disabled (as described in Section 12 of the Plan), all PSUs shall continue to vest and be released according to the terms of your Equity Award Agreement. In the event The Transaction does not occur as envisaged by January 1, 2023, the PSUs would be released by January 1, 2023.

Terms and Conditions of Your Equity Award:

Provisions that apply to specific countries

a. Denmark

i. All Awards

Non-Solicitation

The following part of the above non-solicitation provision does not apply to those individuals with the home country of Denmark: “In consideration of your Award, you agree that during your employment with the Company and for two years following the termination of your employment for any reason, you will not directly or indirectly hire, solicit or make an offer to any employee of the Company to be employed or perform services outside of the Company.”

b. Israel

i. All Awards

Data Privacy

In addition to the data privacy provisions in your Equity Award Agreement, you agree that data, including your personal data, necessary to administer this Award may be exchanged among IBM and its subsidiaries and affiliates as necessary (including transferring such data out of the country of origin both in and out of the EEA), and with any vendor engaged by IBM to administer this Award.

c. United States

i. All Awards

Nothing in the Plan prospectus, your Equity Award Agreement or this Document affects your rights, immunities, or obligations under any federal, state, or local law, including under the Defend Trade Secrets Act of 2016, as described in Company policies, or prohibits you from reporting possible violations of law or regulation to a government agency, as protected by law.

If you are, and have been for at least 30 days immediately preceding, a resident of, or an employee in Massachusetts at the time of the termination of your employment with IBM, cancellation and rescission provisions of the Plan will not apply if you engage in competitive activities after your employment relationship has ended with IBM. For the avoidance of doubt, cancellation and rescission provisions of the Plan will apply if you engage in (1) any Detrimental Activity prior to your employment relationship ending with IBM or (2) any Detrimental Activity described in Section 13(a) of the Plan other than engaging in competitive activities after your employment relationship has ended with IBM.



*Office of the Senior Vice President
Human Resources*

*1 New Orchard Road
Armonk, NY 10504*

March 1, 2021

Dear Elly,

I am delighted to extend an offer of employment to you at IBM as Group President, NewCo, currently the Managed Infrastructure Services unit of Global Technology Services (excluding TSS) effective March 8, 2021 (the "Hire Date").

The attachment outlines the specifics of our offer. I am extremely excited about your joining the IBM team.

Please indicate your acceptance of this offer by signing and returning the letter along with the Noncompetition Agreement to me via email.

Sincerely,

/s/ Nickle LaMoreaux

Nickle LaMoreaux
Senior Vice President and Chief Human Resources Officer,
IBM Human Resources

Attachments

March 1, 2021

Elly Keinan

This letter confirms our offer of IBM employment to you as Group President, NewCo, reporting to Martin Schroeter, Chief Executive Officer, NewCo. Your primary responsibilities will be to ensure completion of The Transaction, as described below, and other responsibilities as agreed upon between you and NewCo's Chief Executive Officer. The elements of your employment offer are:

Cash Compensation:

Effective on your first day of employment, your annualized base salary will be \$800,000.00, and you will have an opportunity to receive a \$1,600,000.00 bonus as set forth below. This is in addition to your participation in the IBM benefits plans. As an employee, you will receive a paycheck on a semi-monthly basis, on or around the 15th and 31st of each month. For 2021, your base salary will be prorated to reflect your actual IBM service.

In connection with IBM's announced intention to spin-off the Managed Infrastructure Services unit of its IBM Global Technology Services (GTS) business and organization (excluding TSS) as a separate publicly listed company with IBM no longer owning any stake in the new company (the separate publicly listed company referred to as "NewCo", and the spin-off referred to as "The Transaction"), which will occur on the date of the closing of such spin-off (referred to as "The Closing Date"), your bonus payment will depend on your successful completion of The Transaction. If achieved, your bonus will be paid no later than February 1, 2022. You must be an active employee on The Closing Date in order to be eligible to receive the bonus payout.

While IBM intends for The Transaction to be completed by December 31, 2021, if The Transaction is not completed by such date, IBM's Chief Executive Officer may in his discretion decide to pay the bonus in full and such payment shall be made no later than February 1, 2022, provided you are an active employee of IBM or Newco on such payment date.

Additionally, you shall receive the bonus if the Transaction is not completed by December 31, 2021 for reasons beyond your reasonable control and your employment is terminated without Cause (as defined in the Noncompetition Agreement).

Please note, if prior to December 31, 2021 for strategic business reasons, (A) IBM unilaterally determines and formally announces that it will not complete The Transaction, or (B) if NewCo is sold to another buyer, and in both cases, the IBM CEO determines that the decision not to complete The Transaction or sell to another buyer was not made as a result of your performance in moving The Transaction to closure, you will be eligible to receive the bonus payment one month following the later of: (1) IBM's formal announcement to not complete The Transaction ("Announcement Date"), or, (2) the closing date of the sale of NewCo ("Sale Date"). You must be an active employee on the

March 1, 2021
Elly Keinan

Announcement Date or the Sale Date, as applicable, in order to be eligible to receive the bonus payout.

New Hire Equity:

You will be awarded a new hire equity grant of \$5,600,000.00 in planned value. You will receive 100% of this planned value as a special Performance Share Unit (PSU) award. Your award will be granted on the 1st of the month following your Hire Date, or as soon as practical thereafter. The number of PSUs granted will be determined by dividing the planned grant value by the average of IBM's closing stock price for the 30 active trading days prior to the date of grant.

In order to vest in your PSU award, you must meet two performance criteria ("Performance Criteria"), or be excused for the non-performance:

1. You (a) successfully complete The Transaction as envisaged by no later than January 1, 2023 or (b) you are excused from completing the Transaction as envisaged for reasons beyond your reasonable control as described in the Terms and Conditions document provided with this offer letter; or (c) your employment is terminated without Cause (as such term is defined in your Noncompetition Agreement) by IBM.
2. Immediately following The Closing Date you accept employment as the Group President of NewCo, provided this performance criterion is excused if NewCo's offer of employment is not comparable in the aggregate to the terms of this offer letter, including your annual salary, bonus, and equity award.

PSUs are subject to the terms and conditions of the applicable IBM Long-Term Performance Plan, along with the Preliminary Award Agreement and Terms and Conditions document that is being provided with this offer letter. A final Award Agreement that indicates the number of PSUs granted will be provided after the grant date of your PSU award.

If the performance criteria described above are satisfied or excused, your award will generally vest and be released 33% on the six month anniversary of The Closing Date, 33% on the 1st anniversary of The Closing Date, and 34% on the 2nd anniversary of The Closing Date, assuming all other conditions in your equity award agreement and its incorporated terms and conditions are met.

If as of The Closing Date the fair market value of the IBM shares underlying your PSU award (the "IBM PSU Share Value") is less than \$5,600,000 by \$50,000 or more, then immediately after The Closing Date, provided that the Performance Criteria have been met, or excused, NewCo shall grant an RSU award to you with respect to a number of shares of NewCo common stock with a value on the date of grant equal to the difference between

March 1, 2021
Elly Keinan

(a) \$5,600,000; and (b) IBM PSU Share Value (“Value Difference”). Such RSU grant shall be released on the same schedule as the PSU award described above.

If instead of The Transaction, NewCo is sold to another buyer, and as of the Sale Date the IBM PSU Share Value is less than \$5,600,000 by \$50,000 or more, and you accept employment with the buyer, then the buyer shall grant an RSU award, or substantially equivalent cash or equity based award in an affiliate of buyer, with a value equal to the Value Difference (determined using the IBM PSU Share Value on the Sale Date), with the award being released on the same schedule as the PSU award.

Sign-on Bonus Payment:

As part of your employment offer, you will be provided a sign-on bonus of \$2,000,000.00 which will be paid in one of your semi-monthly paychecks within two months of the commencement of your IBM employment. This payment will be less applicable tax withholdings. Please note the payment is subject to the terms and conditions of the repayment agreement attached and require your signature. Please see the attached repayment agreement for the complete terms.

Termination Notice

Your employment is at-will but you may not resign for any reason and your employment may not be terminated for any reason without first having given the other party 60 days written notice of resignation or termination. Payments that would ordinarily be made during that 60 day notice period shall continue to be made during such notice period, awards that are scheduled to vest under the applicable award agreement and terms and conditions document during the 60 day notice period, shall vest as scheduled, and employee benefits shall continue in accordance with the terms of such plans during that 60 day notice period.

Benefits:

During your employment, you will be eligible to participate in the various benefit plans which IBM generally makes available to its regular employees, including medical and dental coverage, accident, disability and life insurance, as well as the IBM 401(k) Plus Plan. After you complete one year of IBM service, this Plan offers a 100% Company match, up to 5% of eligible pay, plus a 1% automatic contribution. In addition, if you meet certain eligibility requirements during the annual enrollment period held each fall, you may also be eligible to participate in the IBM Excess 401(k) Plus Plan that provides benefits in excess of the IRS limits. Additional details on these programs will be provided separately. For detailed information on IBM Health Care benefits, visit the Health Care Benefits at IBM site at <http://www.ibm.com/employment/us/benefits/>.

If you have additional benefits questions after visiting our website, please contact Paul Dunkle.

March 1, 2021
Elly Keinan

Additionally, the Affordable Care Act (ACA) requires companies to provide employees with a Notice of Exchanges which discusses the Health Insurance Marketplace; a public option where individuals may purchase health care coverage. This notice is attached for your information.

As is customary at IBM, this offer is contingent upon the completion of our pre-employment process, including verification of your application materials and your ability to work for IBM without restriction (which means you do not have non-compete obligations or other restrictive clause with your current or former employer; or any non-compete or other restrictions have been disclosed by you and resolved to IBM's satisfaction).

IBM employees are required to comply with IBM's Business Conduct Guidelines. Once you have authorized access to the IBM Intranet, you will be able to read and/or print the contents of these documents, and will be required to acknowledge receipt and compliance with the guidelines.

U.S. Laws and regulations prohibit the unauthorized release of restricted technology to certain persons. IBM, in order to comply with these legal requirements, must ascertain whether someone who may be given access to restricted technology is a "Foreign Person" subject to these export control restrictions. If someone is a Foreign Person for export control purposes, then he/she may need to be granted an export license or other government authorization before starting in a position with access to restricted technology. Therefore, if you indicated that you are a Foreign Person on your employment application (by answering "no" to the question "Are you a U.S. citizen or national, a permanent resident?" or "yes" to the question "Are you a refugee, an asylee or authorized to work under the amnesty provisions of U.S. immigration law?"), you will be contacted by a member of IBM's Recruitment organization who will ask for your country(s) of citizenship and permanent residence. Your country(s) of citizenship and permanent residence will enable IBM to determine the type of export license which would be required, should you be placed in a position with access to restricted technology. Our ability to obtain an export license for you may be a factor in IBM's decision to continue with your pre-employment process, depending on the staffing needs of the hiring manager.

For tax and payroll purposes, you will require a Social Security Number. If you do not have one, you must apply for a number at your Social Security Administration Office before your first day of employment. Also, please note that IBM may be required to withhold federal tax at a different rate based upon your alien residency tax filing status. For more information on this, please review IRS Publication 519 before completing the W4 from, <http://www.irs.gov/publications/p519/ch01.html>. If you are a nonresident alien, you will need to complete the W-4 form using the provided instructions on your first day of work, <http://www.irs.gov/publications/p519/ch08.html>.

Long-Term Incentive Award Acceptance Information

Dear Elly Keinan:

IBM's grants to you become effective only after, and are conditioned upon your accepting the terms and conditions of the award agreements, the accompanying "Terms and Conditions of Your Equity Award Effective March 1, 2021" ("Terms and Conditions") document attached below and the Long-Term Performance Plan ("LTTP") under which these long-term incentive awards are granted, including those provisions relating to the cancellation and rescission of awards.

If you have not read the LTTP prospectus that governs your equity awards, please do so by viewing the "Prospectuses" section of the executive compensation web site (http://w3.ibm.com/hr/exec/comp/eq_prospectus.html). The prospectus contains the terms of the LTTP and is the legal offering document covering IBM's stock-based awards, and you should read it before accepting your grant. In the event of any conflict between the terms of the LTTP and the information provided on this screen, the LTTP shall govern.

To record your acceptance and agreement to the terms and conditions of your award, you must press the ACCEPT button below. By pressing the ACCEPT button below, you are certifying that you have read and understand the terms and conditions of each award agreement, the Terms and Conditions document and the LTTP covering each stock-based award listed here, and that you accept and agree to all the relevant terms and conditions.

Until you formally accept your award, Restricted Stock Units and/or Performance Share Units will not be released to you or settled at vesting and Stock Options will not be exercisable. In addition, after you accept your award and your RSU or PSU award vests, the shares (net of taxes where applicable) will typically be available for sale, and/or transfer at <https://www.stockplanconnect.com/> within 2 business days from the vesting and/or payout date, as applicable. As described in the plan documents, the Company withholds taxes from your award (and/or reports income) as required by local laws. In some countries, the Company does not withhold taxes because there is no requirement to do so. Irrespective of any withholding and/or reporting by the Company, it is important for you to consult with your personal tax advisor to satisfy your individual tax obligations.

| Award Type | Award Date | Shares / Units | Long-Term Performance Plan |
|--------------------------------|---------------|----------------|----------------------------|
| Performance Share Units (PSUs) | April 1, 2021 | 44,285 | 1999 |

International Business Machines Corporation ("IBM")

Equity Award Agreement

IBM Confidential

| | |
|-------------------------|--|
| Plan | IBM 1999 Long-Term Performance Plan (the "Plan") |
| Award Type | Performance Share Units (PSUs) |
| Purpose | The purpose of this Award is to retain selected executives. You recognize that this Award represents a potentially significant benefit to you and is awarded for the purpose stated here. |
| Awarded to | Elly Keinan |
| Home Country | United States (USA) 0104359 |
| Award Agreement | This Equity Award Agreement, together with the "Terms and Conditions of Your Equity Award Effective March 1, 2021" ("Terms and Conditions") document and the Plan http://w3.ibm.com/hr/exec/comp/eq_prospectus.html , both of which are incorporated herein by reference, together constitute the entire agreement between you and IBM with respect to your Award. This Equity Award Agreement shall be governed by the laws of the State of New York, without regard to conflicts or choice of law rules or principles. |
| Grant | Date of Grant # PSUs Awarded April 1, 2021 44,285 |
| Vesting | <p>In connection with IBM's announced intention to spin-off the Managed Infrastructure Services Unit of its IBM Global Technology Services (GTS) business and organization (excluding TSS) as a separate publicly listed company (the separate publicly listed company referred to as "NewCo" and the spin-off referred to as "The Transaction"), which will occur on the date of the closing of such spin-off (referred to as "The Closing Date"). You can earn the PSUs awarded above, provided both of the following "Performance Criteria" have been met:</p> <ol style="list-style-type: none">1. You ensure successful completion of The Transaction as envisaged (for the avoidance of doubt, as a spin-off of the Managed Infrastructure Services Unit of the GTS business (excluding TSS)), with IBM no longer owning any equity stake in NewCo following The Closing Date of The Transaction ; and2. You accept employment as Group President of NewCo immediately following The Closing Date of The Transaction <p>If both of the above Performance Criteria are satisfied as determined by the IBM Chief Executive Officer, your awards will be converted into shares of NewCo Restricted Stock Units (RSUs) according to the stated conversion formula for all unvested IBM equity awards on or around The Closing Date, and will vest in accordance with the following schedule:</p> <ul style="list-style-type: none">• 33% on the six-month anniversary of The Closing Date• 33% on the 1st anniversary of The Closing Date• 34% on the 2nd anniversary of The Closing Date |
| Payout of Awards | <p>Following the vesting dates described above, the Company or NewCo shall deliver to you a number of shares of Capital Stock equal to the number of your earned RSUs, net of any applicable tax withholding, and the respective PSUs shall thereafter be canceled.</p> <p>All payouts under this Award are subject to the provisions of the Plan, this Agreement and the Terms and Conditions document, including those relating to the cancellation and rescission of awards.</p> |

International Business Machines Corporation ("IBM")
Equity Award Agreement

Terms and Conditions of Your Equity Award Refer to the Terms and Conditions document attached for an explanation of the terms and conditions applicable to your Award, including those relating to:

- Cancellation and rescission of awards (also see below)
- Jurisdiction, governing law, expenses and taxes
- Non-solicitation of Company employees and clients, if applicable
- Treatment of your award in the event the Performance Criteria above cannot be met , including Performance Criteria that cannot met by no fault of your own
- Treatment of your Award in the event of death or disability or leave of absence
- Treatment of your Award upon termination of employment, including for cause, and under all other circumstances.

It is strongly recommended that you print the Terms and Conditions document for later reference .

Cancellation and Rescission You understand that IBM may cancel, modify, rescind, suspend, withhold or otherwise limit or restrict this Award in accordance with the terms of the Plan, including, without limitation, canceling or rescinding this Award if you render services for a competitor prior to, or during the Rescission Period. You understand that the Rescission Period that has been established is 12 months. Refer to the Terms and Conditions document and the Plan for further details.

Data Privacy, Electronic Delivery By accepting this Award, you agree that data, including your personal data, necessary to administer this Award may be exchanged among IBM and its subsidiaries and affiliates as necessary, and with any vendor engaged by IBM to administer this Award, subject to the Terms and Conditions document; you also consent to receiving information and materials in connection with this Award or any subsequent awards under IBM's long-term performance plans, including without limitation any prospectuses and plan documents, by any means of electronic delivery available now and/or in the future (including without limitation by e-mail, by Web site access and/or by facsimile), such consent to remain in effect unless and until revoked in writing by you.

Extraordinary Compensation Your participation in the Plan is voluntary. The value of this Award is an extraordinary item of income, is not part of your normal or expected compensation and shall not be considered in calculating any severance, redundancy, end of service payments, bonus, long-service awards, pension, retirement or other benefits or similar payments. The Plan is discretionary in nature. This Award is a one-time benefit that does not create any contractual or other right to receive additional awards or other benefits in the future. Future grants, if any, are at the sole grace and discretion of IBM, including but not limited to, the timing of the grant, the number of units and vesting provisions. This Equity Award Agreement is not part of your employment agreement, if any.

International Business Machines Corporation ("IBM")
Equity Award Agreement

Accept Your Award

This Award is considered valid when you accept it. This Award will be cancelled unless you accept it by 11:59 p.m. Eastern time two business days prior to the Closing Date. By pressing the Accept button below to accept your Award, you acknowledge having received and read this Equity Award Agreement, the Terms and Conditions document and the Plan under which this Award was granted and you agree (i) not to hedge the economic risk of this Award or any previously-granted outstanding awards, which includes entering into any derivative transaction on IBM securities (e.g., any short sale, put, swap, forward, option, collar, etc.), (ii) to comply with the terms of the Plan, this Equity Award Agreement and the Terms and Conditions document, including those provisions relating to cancellation and rescission of awards and jurisdiction and governing law, and (iii) that by your acceptance of this Award, all awards previously granted to you under the Plan or other IBM Long -Term Performance Plans are subject to (A) jurisdiction, governing law, expenses, taxes and administration section of the Terms and Conditions document (unless you are, and have been for at least 30 days immediately preceding, a resident of or an employee in Massachusetts at the time of the termination of your employment with IBM, in which case the jurisdiction, governing law, expenses, taxes and administration terms of your previous awards shall apply) and (B) any cancellation, rescission or recovery required by applicable laws, rules, regulations or standards, including without limitation any requirements or standards of the U.S. Securities and Exchange Commission or the New York Stock Exchange.

IBM

**TERMS AND CONDITIONS OF YOUR
EQUITY AWARD:
EFFECTIVE March 1, 2021**

Terms and Conditions of Your Equity Award

Table of Contents

| | |
|--|-----------|
| Introduction | 3 |
| How to Use This Document | 3 |
| Definition of Terms | 4 |
| Provisions that apply to all countries | 6 |
| Provisions that apply to select countries | 8 |
| Provisions that apply to the Performance Share Units (PSUs) | 9 |
| a. Performance Share Units (“PSUs”) including Cash-Settled PSUs | 9 |
| Provisions that apply to specific countries | 12 |
| a. Denmark | 12 |
| b. Israel | 12 |
| c. United States | 12 |

Terms and Conditions of Your Equity Award

Introduction

This document provides you with the terms and conditions of your Award that are in addition to the terms and conditions contained in your Equity Award Agreement for your specific Award. Also, your Award is subject to the terms and conditions in the governing plan document; the applicable document is indicated in your Equity Award Agreement and can be found at https://w3cms.s3-api.us-geo.objectstorage.softlayer.net/inline-files/LTPP_1999_august_2007_prospectus.pdf.

How to Use This Document

Terms and conditions that apply to all awards in all countries can be found on page 6. Review these in addition to any award- or country-specific terms and conditions that may be listed. Once you have reviewed these general terms, check in your Equity Award Agreement for any award-specific and/or country-specific terms that apply to your Award.

Terms and Conditions of Your Equity Award:

Definition of Terms

The following are defined terms from the Long-Term Performance Plan, your Equity Award Agreement, or this Terms and Conditions document. These are provided for your information. In addition to this document, see the Plan prospectus and your Equity Award Agreement for more details.

“Awards” -- The grant of any form of stock option, stock appreciation right, stock or cash award, whether granted singly, in combination or in tandem, to a Participant pursuant to such terms, conditions, performance requirements, limitations and restrictions as the Committee may establish in order to fulfill the objectives of the Plan.

“Board” -- The Board of Directors of International Business Machines Corporation (“IBM”).

“Capital Stock” -- Authorized and issued or unissued Capital Stock of IBM, at such par value as may be established from time to time.

“Committee” -- The committee designated by the Board to administer the Plan.

“Company” -- IBM and its affiliates and subsidiaries including subsidiaries of subsidiaries and partnerships and other business ventures in which IBM has an equity interest.

“Engage in or Associate with” includes, without limitation, engagement or association as a sole proprietor, owner, employer, director, partner, principal, joint venture, associate, employee, member, consultant, or contractor. This also includes engagement or association as a shareholder or investor during the course of your employment with the Company, and includes beneficial ownership of five percent (5%) or more of any class of outstanding stock of a competitor of the Company following the termination of your employment with the Company.

“Equity Award Agreement” -- The document provided to the Participant which provides the grant details.

“Fair Market Value” -- The average of the high and low prices of Capital Stock on the New York Stock Exchange for the date in question, provided that, if no sales of Capital Stock were made on said exchange on that date, the average of the high and low prices of Capital Stock as reported for the most recent preceding day on which sales of Capital Stock were made on said exchange.

“NewCo” -- Referred to as the working name of the envisaged new company that is created as a result of IBM spinning-off the Managed Infrastructure Services Unit of its IBM Global Technology Services (GTS) business and organization (excluding TSS) as a separate publicly listed company, with IBM no longer owning any equity stake in the new company.

"Participant" -- An individual to whom an Award has been made under the Plan. Awards may be made to any employee of, or any other individual providing services to, the Company. However, incentive stock options may be granted only to individuals who are employed by IBM or by a subsidiary corporation (within the meaning of section 424(f) of the Code) of IBM, including a subsidiary that becomes such after the adoption of the Plan.

"Performance Team" -- For purposes of the Plan, the Performance Team refers to the team of IBM's senior leaders who run IBM Business Units or geographies, including the chairman and CEO. The CEO selects and invites these senior leaders to join the Performance Team.

"Plan" -- Any IBM Long-Term Performance Plan.

"Termination of Employment" -- For the purposes of determining when you cease to be an employee for the cancellation of any Award, a Participant will be deemed to be terminated if the Participant is no longer employed by IBM or a subsidiary corporation that employed the Participant when the Award was granted unless approved by a method designated by those administering the Plan.

"The Announcement Date" -- If applicable, the date that IBM formally announces that it will not complete the spin-off of the Managed Infrastructure Services Unit of its IBM Global Technology Services business and organization (excluding TSS) as a separate publicly listed company, with IBM no longer owning any equity stake in the new company.

"The Closing Date" -- The date that IBM completes the spin-off of the Managed Infrastructure Services Unit of its IBM Global Technology Services (GTS) business and organization (excluding TSS) as a separate publicly listed Company, with IBM no longer owning any equity stake in the new company.

"The Sale Date" -- If applicable, the date that IBM completes the sale of the Managed Infrastructure Services Unit of its IBM Global Technology Services business and organization (excluding TSS) to another buyer (rather than being spun-off as a separate publicly listed company).

"The Transaction" -- The spin-off of the Managed Infrastructure Services Unit of IBM's

Global Technology Services business and organization (excluding TSS) as a separate publicly listed company, with IBM no longer owning any equity stake in the new company.

Terms and Conditions of Your Equity Award:

Provisions that apply to all countries

The following provisions apply to all countries and for the following Award types: Performance Share Units and Cash-Settled Performance Share Units.

Cancellation and Rescission

All determinations regarding enforcement, waiver or modification of the cancellation and rescission and other provisions of the Plan and your Equity Award Agreement (including the provisions relating to termination of employment, death and disability) shall be made in IBM's sole discretion. Determinations made under your Equity Award Agreement and the Plan need not be uniform and may be made selectively among individuals, whether or not such individuals are similarly situated.

You agree that the cancellation and rescission provisions of the Plan and your Equity Award Agreement are reasonable and agree not to challenge the reasonableness of such provisions, even where forfeiture of your Award is the penalty for violation. Engaging in Detrimental Activity (as defined in the Plan) may result in cancellation or rescission of your Award. Detrimental Activity includes your acceptance of an offer to Engage in or Associate with any business which is or becomes competitive with the Company.

Jurisdiction, Governing Law, Expenses, Taxes and Administration

Your Equity Award Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to its conflict of law rules. You agree that any action or proceeding with respect to your Equity Award Agreement shall be brought exclusively in the state and federal courts sitting in New York County or, Westchester County, New York. You agree to the personal jurisdiction thereof, and irrevocably waive any objection to the venue of such action, including any objection that the action has been brought in an inconvenient forum.

If any court of competent jurisdiction finds any provision of your Equity Award Agreement, or portion thereof, to be unenforceable, that provision shall be enforced to the maximum extent permissible so as to effect the intent of the parties, and the remainder of your Equity Award Agreement shall continue in full force and effect.

If you or the Company brings an action to enforce your Equity Award Agreement and the Company prevails, you will pay all costs and expenses incurred by the Company in connection with that action and in connection with collection, including reasonable attorneys' fees.

If the Company, in its sole discretion, determines that it has incurred or will incur any obligation to withhold taxes as a result of your Award, without limiting the Company's rights under Section 9 of the Plan, the Company may withhold the number of shares that it determines is required to satisfy such liability and/or the Company may withhold amounts from other compensation to the extent required to satisfy such liability under federal, state, provincial, local, foreign or other tax laws. To the extent that such amounts are not withheld, the Company may require you to pay to the Company any amount demanded by the Company for the purpose of satisfying such liability.

If the Company changes the vendor engaged to administer the Plan, you consent to moving all of the shares you have received under the Plan that is in an account with such vendor (including unvested and previously vested shares), to the new vendor that the Company engages to administer the Plan. Such consent will remain in effect unless and until revoked in writing by you.

Terms and Conditions of Your Equity Award:

Provisions that apply to select countries

The following provisions apply to select countries and for the following Award types, Performance Share Units and Cash-Settled Performance Share Units, granted to all individuals in all countries except those with a home country of Latin America, specifically: Argentina, Bolivia, Brazil, Chile, Columbia, Costa Rica, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

Non-Solicitation

In consideration of your Award, you agree that during your employment with the Company and for two years following the termination of your employment for any reason, you will not directly or indirectly hire, solicit or make an offer to any employee of the Company to be employed or perform services outside of the Company. Also, you agree that during your employment with the Company and for one year following the termination of your employment for any reason, you will not directly or indirectly, solicit, for competitive business purposes, any customer of the Company with which you were involved as part of your job responsibilities during the last year of your employment with the Company. By accepting your Award, you acknowledge that the Company would suffer irreparable harm if you fail to comply with the foregoing, and that the Company would be entitled to any appropriate relief, including money damages, equitable relief and attorneys' fees.

Terms and Conditions of Your Equity Award:

Provisions that apply to the Performance Share Units (PSUs) for all countries

a. Performance Share Units (“PSUs”) including Cash-Settled PSUs

Treatment of your Award in the Event that the Performance Criteria cannot be met

Performance Criteria are not met because IBM unilaterally determines that The Transaction will no longer be completed as envisaged

If for strategic business reasons, IBM unilaterally decides to formally change course and announces that it will not move forward with The Transaction as envisaged (The Announcement Date), and the IBM Chief Executive Officer determines that the decision to change course was not made as a result of your performance in moving The Transaction to closure, IBM agrees that you satisfied the Performance Criteria of your Equity Award Agreement upon your termination of employment with IBM, and your PSUs will be released on the following schedule after The Announcement Date:

- 33% on the 6 month anniversary of The Announcement Date
- 33% on the 1st anniversary of The Announcement Date
- 34% on the 2nd anniversary of The Announcement Date

Performance Criteria are not met because NewCo is purchased by another buyer

If, during the course of completing The Transaction, NewCo is purchased by another buyer, and you are selected and agree to the role in NewCo that is designated in your Award Agreement immediately following the sale of NewCo, IBM agrees that you satisfied the Performance Criteria of your Equity Award Agreement and your PSUs will convert to NewCo RSUs or a substantially equivalent cash or equity-based award in an affiliate of buyer and vest in accordance with your Equity Award agreement.

If, however, NewCo is purchased by another buyer, and the IBM Chief Executive Officer determines that the decision to sell to another buyer was not made as a result of your performance in moving The Transaction to closure, but you were NOT selected for a role in NewCo that is substantially comparable to the role designated in your Award Agreement, IBM agrees that you satisfied the Performance Criteria of your Equity Award agreement upon your termination of employment with IBM, and your PSUs will be released on the following schedule after The Sale Date:

- 33% on the 6 month anniversary of the Sale Date
- 33% on the 1st anniversary of The Sale Date
- 34% on the 2nd anniversary of The Sale Date

Performance Criteria not met Due to Termination by IBM without Cause

If prior to completion of The Transaction or prior to The Sale Date, IBM terminates your employment without Cause (as such term is defined in section 2 of your Noncompetition Agreement), IBM agrees that you satisfied the Performance Criteria of your Equity Award Agreement upon your termination of employment, and your PSUs will be released on the following schedule after the date of your termination from employment (the "Termination Date"):

- 33% on the 6 month anniversary of The Termination Date
- 33% on the 1st anniversary of The Termination Date
- 34% on the 2nd anniversary of The Termination Date

Performance Criteria not met Due to Lack of Comparable Offer of Employment:

If The Transaction is completed, and you do not accept employment with NewCo because (i) you are not selected for the role in NewCo that is substantially comparable to the role that is designated in your Award Agreement; or (ii) the offer of employment is not comparable in the aggregate with your annual salary, bonus and equity award in effect at the time of the Transaction, IBM agrees that you satisfied the Performance Criteria of your Equity Award Agreement upon your termination of employment, and your PSUs will be released on the following schedule after the date of your termination from employment (the "Termination Date"):

- 33% on the 6 month anniversary of The Termination Date
- 33% on the 1st anniversary of The Termination Date
- 34% on the 2nd anniversary of The Termination Date

Performance Criteria not met for other reasons

If, other than by death or disability described below, your performance conditions are not met for any other reason by January 1, 2023, your PSUs will be cancelled when the performance criteria have been determined to have not been met.

Termination of Employment, including Death and Disability, and Leave of Absence

Termination of Employment and Leave of Absence

If you cease to be an active employee for any reason (other than on account of death or are disabled as described in Section 12 of the Plan) before they vest in accordance with the terms of your Equity Award Agreement, all PSUs are canceled immediately.

Death or Disability

Prior to the Date of Payout, (i) in the event of your death or (ii) if you are disabled (as described in Section 12 of the Plan), all PSUs shall continue to vest and be released according to the terms of your Equity Award Agreement. In the event The Transaction does not occur as envisaged by January 1, 2023, the PSUs would be released by January 1, 2023.

Terms and Conditions of Your Equity Award:

Provisions that apply to specific countries

a. Denmark

i. All Awards

Non-Solicitation

The following part of the above non-solicitation provision does not apply to those individuals with the home country of Denmark: “In consideration of your Award, you agree that during your employment with the Company and for two years following the termination of your employment for any reason, you will not directly or indirectly hire, solicit or make an offer to any employee of the Company to be employed or perform services outside of the Company.”

b. Israel

i. All Awards

Data Privacy

In addition to the data privacy provisions in your Equity Award Agreement, you agree that data, including your personal data, necessary to administer this Award may be exchanged among IBM and its subsidiaries and affiliates as necessary (including transferring such data out of the country of origin both in and out of the EEA), and with any vendor engaged by IBM to administer this Award.

c. United States

i. All Awards

Nothing in the Plan prospectus, your Equity Award Agreement or this Document affects your rights, immunities, or obligations under any federal, state, or local law, including under the Defend Trade Secrets Act of 2016, as described in Company policies, or prohibits you from reporting possible violations of law or regulation to a government agency, as protected by law.

If you are, and have been for at least 30 days immediately preceding, a resident of, or an employee in Massachusetts at the time of the termination of your employment with IBM, cancellation and rescission provisions of the Plan will not apply if you engage in competitive activities after your employment relationship has ended with IBM. For the avoidance of doubt, cancellation and rescission provisions of the Plan will apply if you engage in (1) any Detrimental Activity prior to your employment relationship ending with IBM or (2) any Detrimental Activity described in Section 13(a) of the Plan other than engaging in competitive activities after your employment relationship has ended with IBM.

Executive Sign-on Payment Repayment Agreement**This form must be completed in order to receive your Sign-On Payment.**

| | | |
|--------------------------------------|--|------------------------------|
| Employee Name Keinan, Elly | Date of Hire March 8, 2021 | E-Mail Address |
| Phone | Resident Location New York, NY | Work Location U.S. |

Prior to receiving any payment, I understand and agree to the following terms:

I am eligible to receive a sign-on payment in the total amount of \$2,000,000.00. The payment will be made no later than two months following my hire date.

- The sign-on payment is earned on the earned date identified in the schedule below. If my employment with IBM ends within two years after my hire date, I will repay to IBM the sign-on payment.
- In connection with IBM's announced intention to spin-off the Managed Infrastructure Services business (NewCo) as a separate publicly listed company, which will occur on the date of the closing of such spin-off (the Closing Date), referred to below as the Transaction, my repayment requirement will continue with NewCo.
- However, in the event that my employment with IBM or NewCo is terminated within the first two years of my employment for any of the following reasons, the repayment requirement mentioned above will not apply.
 1. IBM unilaterally decides to formally change course and announces that it will not move forward with the Transaction, and the IBM Chief Executive Officer determines that the decision to change course was not made as a result of my performance in moving The Transaction to closure;
 2. NewCo is purchased by another buyer and the IBM Chief Executive Officer determines that the decision to sell to another buyer was not made as a result of my performance in moving the Transaction to closure, and I am NOT selected for a role in NewCo that is substantially comparable to Group President;
 3. Without cause (as defined in my Noncompetition Agreement with IBM).
- If I take a leave of absence from working for IBM on an active, full-time basis before the payment earned date or during the repayment period, the payment earned date and my obligation to repay the relevant installment payment will be extended for the period of the leave of absence.
- Similarly, if I convert to part-time employment status from active, full-time employment at IBM before the payment earned date or during the repayment period, the payment earned date and my obligation to repay the payment will be extended for the period of time represented by the difference between one year's active, full-time employment and the hours worked on my part-time employment schedule.

To the extent permitted by law, I also authorize IBM to deduct any unearned sign-on payment balance, less any tax withholdings, owed to IBM from any funds IBM may owe me at the time of my departure, such as wages, commissions, vacation, or bonus payments. If, after IBM has deducted the amount from funds owed to me at the time of my departure, a balance owed to IBM remains, I shall repay the balance to IBM.

IBM

Executive Sign-on Payment Repayment Agreement

This Sign-on Payment Repayment Agreement does not constitute a contract of employment or create or grant any right to continued employment with IBM for any period of time. My employment remains “at will” and may end at any time by IBM or me.

| Payment Amount | Payment Date | Payment Earned Date |
|-----------------------|-------------------------|----------------------------|
| \$2,000,000 | Within 2 months of hire | 2 years from date of hire |

| | |
|--|---------------------------|
| Employee Signature /s/ Elly Keinan | Date 03/02/2021 |
|--|---------------------------|

**IBM Confidential*

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

Subject to Completion — Dated [], 2021

INFORMATION STATEMENT

Kyndryl Holdings, LLC

Common Stock

(par value \$0.01 per share)

Kyndryl Holdings, LLC (“**Kyndryl**” or “**we**”), a wholly-owned subsidiary of International Business Machines Corporation (“**IBM**”), is sending you this Information Statement in connection with the spin-off of Kyndryl by IBM. To effect the spin-off, IBM will distribute all of the shares of our common stock on a *pro rata* basis to the holders of IBM common stock. We expect that the distribution of our common stock will be tax-free to holders of IBM common stock for U.S. federal income tax purposes, except for cash that stockholders may receive (if any) in lieu of fractional shares. Kyndryl Holdings, LLC will be converted into a Delaware corporation prior to the spin-off.

If you are a record holder of IBM common stock as of the close of business on [], 2021, which is the record date for the distribution, you will be entitled to receive [] shares of our common stock for every [] shares of IBM common stock that you hold on that date. IBM will distribute its shares of our common stock in book-entry form, which means that we will not issue physical stock certificates. The distribution agent will not distribute any fractional shares of our common stock.

The distribution will be effective as of [], New York City time, on [], 2021. Immediately after the distribution becomes effective, we will be an independent, publicly traded company.

IBM’s stockholders are not required to vote on or take any other action to approve the spin-off. We are not asking you for a proxy, and request that you do not send us a proxy. IBM stockholders will not be required to pay any consideration for the shares of our common stock they receive in the spin-off, and they will not be required to surrender or exchange their shares of IBM common stock or take any other action in connection with the spin-off.

No trading market for our common stock currently exists. We expect, however, that a limited trading market for our common stock, commonly known as a “when-issued” trading market, will develop as early as one trading day prior to the record date for the distribution, and we expect “regular-way” trading of our common stock will begin on the first trading day after the distribution date. We intend to apply to list our common stock on the [] under the ticker symbol “[]”. The listing is subject to approval of our application.

In reviewing this Information Statement, you should carefully consider the matters described in the section entitled “Risk Factors” beginning on page 12 of this Information Statement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this Information Statement is truthful or complete. Any representation to the contrary is a criminal offense.

This Information Statement is not an offer to sell, or a solicitation of an offer to buy, any securities.

The date of this Information Statement is [], 2021.

Information contained herein is subject to completion or amendment. A registration statement on Form 10 relating to these securities has been filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|---------------------|
| Trademarks and Copyrights | ii |
| Industry And Market Data | ii |
| Information Statement Summary | 1 |
| Risk Factors | 12 |
| Cautionary Statement Concerning Forward-Looking Statements | 27 |
| The Spin-Off | 28 |
| Dividend Policy | 33 |
| Capitalization | 34 |
| Unaudited Pro Forma Condensed Combined Financial Statements | 35 |
| Business | 42 |
| Management’s Discussion and Analysis of Financial Condition and Results of Operations | 53 |
| Management | 75 |
| Director Compensation | 79 |
| Compensation Discussion and Analysis | 80 |
| Security Ownership of Certain Beneficial Owners and Management | 87 |
| Certain Relationships and Related Party Transactions | 89 |
| Material U.S. Federal Income Tax Consequences | 95 |
| Description of Our Capital Stock | 99 |
| Where You Can Find More Information | 104 |
| Index to Financial Statements | F-1 |

TRADEMARKS AND COPYRIGHTS

We own or have rights to various trademarks, logos, service marks and trade names that we use in connection with the operation of our business. We also own or have the rights to copyrights that protect the content of our products. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this Information Statement are listed without the ™, ® or © symbols, but such references do not constitute a waiver of any rights that might be associated with the respective trademarks, service marks, trade names and copyrights included or referred to in this Information Statement.

INDUSTRY AND MARKET DATA

This Information Statement includes data concerning our industry and the markets in which we operate that is based on information from public filings, internal company sources, management estimates and various third-party sources. All such industry data is available publicly or for purchase and was not commissioned specifically for us. Forecasts based upon such data involve risks and uncertainties, and actual results regarding the subject matter of such forecasts are subject to change based upon various factors beyond our control.

The sources of certain statistical data, industry data, estimates and forecasts contained in this Information Statement are the following independent industry publications or reports:

- Gartner, Smarter With Gartner: Top Security and Risk Trends for 2021, dated April 5, 2021.
- Gartner, Forecast: IT Services, Worldwide, 2019-2025, 1Q21 Update, dated March 25, 2021 (the “**Gartner IT Services Report**”).
- Gartner, Forecast Analysis: Digital Business Consulting Services, Worldwide, dated December 7, 2020 (the “**Gartner Consulting Services Forecast Report**”).
- Gartner Press Release, Gartner Forecasts Strong Revenue Growth for Global Container Management Software and Services Through 2024, dated June 25, 2020.
- Gartner, Forecast Analysis: Cloud Consulting and Implementation Services, Worldwide, dated March 5, 2020.

We performed calculations of market sizes and growth rates using Gartner research from the Gartner IT Services Report and the Gartner Consulting Services Forecast Report.

The Gartner reports described herein (the “**Gartner Content**”) represent research opinions or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. (“**Gartner**”) and are not representations of fact. Each Gartner Content speaks as of its original publication date (and not as of the date of this Information Statement), and the opinions expressed in the Gartner Content are subject to change without notice.

INFORMATION STATEMENT SUMMARY

In this Information Statement, unless the context otherwise requires:

- The “**Company**,” “**Kyndryl**,” “**we**,” “**our**” and “**us**” refer to (a) Kyndryl Holdings, LLC (a newly formed holding company) and (b) Kyndryl Holdings, Inc. following the conversion of Kyndryl Holdings, LLC into a Delaware corporation, which will occur prior to the Spin-Off, and, in each case unless otherwise indicated or the context otherwise requires, its consolidated subsidiaries after giving effect to the Spin-Off; and
- “**IBM**” or “**Parent**” refers to International Business Machines Corporation and its consolidated subsidiaries.

The transaction in which IBM will distribute to its stockholders all of the shares of our common stock is referred to in this Information Statement as the “**Distribution**” or the “**Spin-Off**.” Any references to IBM stockholders in this Information Statement refer to holders of IBM’s common stock. Prior to IBM’s Distribution of the shares of our common stock to its stockholders, IBM will undertake a series of internal reorganization transactions, pursuant to which, among other transactions, Kyndryl will be converted into a corporation and following which Kyndryl will hold, through its subsidiaries, IBM’s managed infrastructure services business, which we refer to as the “**Business**.” We refer to this series of internal reorganization transactions as the “**Reorganization Transactions**.”

Our Company

We are a leading technology services company and the largest infrastructure services provider in the world, serving as a partner to more than 4,000 customers in over 100 countries. We have a long track record of helping enterprises navigate major technological changes, particularly by enabling our customers to focus on the core aspects of their businesses during these shifts while trusting us with their most critical systems. Today, enterprises are engaged in individual and unique digital transformations to differentiate their businesses and derive value through better customer experiences. However, enterprises often face shortages in critical technical expertise to successfully make this complex change. Our purpose is therefore to design, build, and manage secure and responsive private, public, and multicloud environments to accelerate our customers’ digital transformations.

We put the customer at the center of everything we do, every day. We provide engineering talent, operating paradigms, and insights derived from our data around IT patterns. This enables us to deliver advisory, implementation, and managed services at scale across technology infrastructures that allow our customers to de-risk and realize the full value of their digital transformations. We do this while embracing new technologies and solutions, and continually expanding our skills and capabilities, as we help advance the vital systems that power progress for our customers. We are also organized to be fast and focused, in order to respond more quickly to our customers’ needs, and our principles have led to a structure that drives accountability and responsibility to the teams that work closely with them and our partners. We deliver transformation and secure cloud services capabilities, insights, and depth of expertise to modernize and manage IT environments based on our customers’ unique patterns of transformation at scale. We offer services across domains such as cloud services, core enterprise and zCloud services, applications, data, and artificial intelligence services, digital workplace services, security and resiliency services, and network and edge services as we continue to support our customers through technological change. Our services enable us to modernize and manage cloud and on-premise environments as “one” for our customers, enabling them to scale seamlessly.

To deliver these services, we rely on our team of skilled practitioners, consisting of approximately 90,000 professionals. Given our large and diversified customer base operates in multiple industries and geographies, we utilize a flexible labor and delivery model with a balanced mix of global and local talent as needed to meet customer-specific needs, regulatory requirements, and data protection and labor laws. Our employees leverage their deep engineering expertise and extensive experience operating complex and heterogeneous technology environments to drive service quality, intellectual property development, and our long-term trusted customer relationships.

As described in “— Our Customers,” we have many customer relationships that are decades long, as we provide high-quality, mission-critical services that are core to operations with customers that represent the backbones of their respective industries. These customers entrust us to deliver the services they need, and manage their complex environments so that they can achieve their business objectives.

As an independent company, we will be free to partner with a broader ecosystem, including a wide range of hyperscale cloud providers, system integrators, independent software vendors, and technology vendors from startups to market leaders. This enables us to serve our customers with the contemporary technology capabilities that best fit their needs and open new avenues for growth. This is all underpinned by our ability to integrate and operate mission-critical technology at scale using deep engineering expertise and intellectual property.

Our approach has enabled us to reach significant scale, with \$19.4 billion in revenue for the fiscal year ended December 31, 2020. We are focused on driving revenue growth with sustainable margins by extending our leadership in the markets in which we operate while investing in our capabilities, and expanding our high value, next generation services consistent with customer needs.

Our Industry and Market Opportunity

We participate in an industry that provides services for customers’ technology environments that power their businesses. These services span areas such as management of mission-critical systems across dedicated data centers and multiple clouds. As customers advance their digital transformations, they are looking for partners that understand their business objectives and unique digital journeys, and have the skills to instrument and engineer the IT environments to enable their transformations. Our long standing position as an informed and trusted partner, with decades-long relationships and leading capabilities, provides us with the knowledge and expertise to best help existing and new customers realize their future.

The market for these services is large and dynamic. We project this market, which is a subset of the total IT services market, to represent a \$415 billion opportunity in 2021, growing 7% annually to \$510 billion in 2024. Growth in this market is driven by services that are aligned to customers’ transformations, and represent an incremental \$75 billion. These transformation services include several high-growth portions of the market that each exceed approximately \$10 billion in opportunity, including public cloud managed services (compounded annual growth of 11% from 2021 to 2024), data services (compounded annual growth of 18% from 2021 to 2024), security services (compounded annual growth of 12% from 2021 to 2024), and intelligent automation services (compounded annual growth of 27% from 2021 to 2024). Managed services for edge environments represents a smaller portion connected to many other opportunities, and itself is expected to experience compounded annual growth above 100% from 2021 to 2024.

Several trends underpin the growth of our market, including:

- **Greater demand for digital transformation services.** Companies continue to digitally transform to deliver better customer experiences and compete more effectively, which drives the need for services to support modernization of IT within the enterprise. The COVID-19 global pandemic has accelerated this already pervasive trend, as organizations look to further their digital capabilities. International Data Corporation (“**IDC**”) estimates that approximately 65% of GDP will be digitized by 2022. Illustrating the growth in digitization, U.S. online retail sales surged by 32% year-over-year in 2020. While customers seek to transform, skills availability often represents a challenge, with lack of skills ranked as one of the top 3 impediments to transformation of the IT environment according to Technology Business Research, Inc.
- **Ongoing migration to the cloud.** Companies continue to migrate workloads to the cloud, adopting new capabilities for flexibility, workload portability, and management. These transitions are often complex, with companies seeking assistance from service providers. Gartner forecasts that by 2025, 85% of large organizations will have engaged external service providers to migrate applications to the cloud, an increase from 43% in 2019. Furthermore, Gartner projects that by 2022, more than 75% of global organizations will be running containerized applications in production (an increase from less than 30% today) and worldwide revenue for container management will double by 2024. The extension of public cloud services to multiple environments in different locations has given rise to distributed cloud and migration of workload to these infrastructures that have a greater fit for purpose.

- **Rapid data growth.** As economies have evolved digitally, significantly increasing data volume, management of this data has become much more complex. IDC estimates that in 2020, enterprises created and captured 64 zettabytes of data. The challenge for many organizations is how to collect, harness and govern this data for insights that yield business results and realize data as a differentiator. In order to leverage advanced capabilities such as artificial intelligence and machine learning to enable their business use cases, enterprises need to address data privacy, compliance, security, multicloud data management and data governance across physical and virtual layers of the IT estate.
- **Increasing need for secure systems.** As technology environments become increasingly complex and online, remote and distributed work environments persist, cybersecurity will remain of paramount importance as threats proliferate. Breaches in security can have severe, lasting financial and reputational consequences on businesses. In response, businesses continue to build out their cybersecurity efforts, using service providers to augment their capabilities. According to PwC's 2021 CEO Survey, one-third of U.S. CEOs plan to increase investments in cybersecurity by double digits, with 47% of CEOs citing cyber threats as sources of extreme concern to growth prospects. Enterprises seek service providers that can deploy the expertise and resources needed to manage their growing cybersecurity needs with an efficient and comprehensive approach. Gartner estimates approximately 80% of organizations currently have 16 or more tools from different vendors in their cybersecurity portfolio, recognize vendor consolidation as an avenue for reduced costs and better security that addresses the complexity in their IT environments, and are, therefore, interested in vendor consolidation strategies.
- **Accelerating pace of technological advancement.** As companies adopt new technologies for improved business performance and innovation, they face a challenge in complexity to integrate these new technologies with their existing IT estates. As a result, the required skills, integration burden, and cost in end-to-end operational management often increases. This drives adoption of new capabilities, such as automation, artificial intelligence, and machine learning to ensure that the IT environment is well designed and orchestrated to effectively realize business objectives.

Our Services

We provide advisory, implementation, and managed services in and across a range of technology domains to help our customers manage and modernize enterprise IT environments in support of their business and transformation objectives. Our services are differentiated based on our expertise and intellectual property, and data around IT patterns across customers in the following domains:

- **Cloud Services:** We design, build, and provide managed services for our customers' multicloud environments. We apply a mix of skilled practitioners, intelligent automation and modern service management principles of Site Reliability Engineering, AIOps, Infrastructure as Code and DevOps. We help enterprises optimize their use of hyperscale cloud providers in a unified environment, seamlessly integrating services delivered by: ISVs, large public cloud providers, internal platforms, and other technologies (e.g., IoT).
- **Core Enterprise & zCloud Services:** We establish and operate modern, dedicated technology infrastructure on behalf of enterprise customers to enable their current and future growth and profitability objectives. We support a range of enterprise infrastructure, including private clouds, mainframe environments, distributed computing, enterprise networks, and storage environments.
- **Application, Data, and Artificial Intelligence Services:** We provide end-to-end enterprise data services, including data transformation, data architecture and management, data governance and compliance, and data migration. We support Chief Digital Officers and CIOs in governing the vast quantities of enterprise data across internal and external sources to drive their digital strategies, transactions, and business objectives, while maintaining security, ethical standards, and compliance with country-specific data protection regulations (e.g., GDPR, HIPAA, and PCI). We provide services to design, build, manage, and automate the IT environments for enterprise applications as they migrate to the cloud. Our services help CIOs and Chief Technology Officers (CTOs) unlock the full value of leading third-party Enterprise Resource Planning systems (e.g., Oracle, SAP) and packaged applications through the use of AI and software-defined technologies.

- **Digital Workplace Services:** Our digital workplace services provide the technology infrastructure, mobility, security, and access solutions to support a global workforce that is constantly evolving. Our services include enterprise mobility solutions that provide users with the ability to work seamlessly across environments and locations.
- **Security & Resiliency Services:** We provide comprehensive enterprise cyber-security services for Chief Information Security Officers and CRO, including: insights, protection, detection, response, and recovery to support the security of our client's hybrid IT estate, data and operations. Concurrently, we provide resiliency services that include a mix of business continuity planning and cloud-based disaster recovery capabilities (composed of experts, digital tools and automation, and failover environments). These services allow our customers to operate without issue or disruption in response to attacks, outages, natural disasters, and geopolitical events.
- **Network Services & Edge:** We provide network and edge services to help customers meet their technological and commercial requirements for connectivity and compute across their digital environments. Our strategy and assessment services help evaluate customers' network needs for their multicloud environments, while our network transformation and managed services allow customers to realize benefits of the latest software-defined network technologies. We deliver these services with a proprietary framework and architecture coupled with proof of concepts to then implement and manage enterprise networks with the right economics.

Our Competitive Strengths

We are a recognized leader in many of the services we provide, as acknowledged by research analysts (e.g., Everest, Forrester, Gartner, and IDC). We are known for our technology integration and modernization expertise — designing, building, and managing complex technology environments. Our worldwide and high-quality service delivery is underpinned by experienced and highly-trained practitioners that bring the best of our capabilities to our customers on a daily basis. Importantly, our culture of customer service excellence — especially in times of crisis, from COVID-19 to tsunamis, floods, cyber-attacks, and power outages — carries on from our heritage through our people. Given our unique capabilities, scale, intellectual property, and engineering talent, we are positioned to partner with enterprises for their future across a range of technologies, use cases, and business strategies to help them maximize the return on their technology investments and digital transformations.

Our competitive strengths stem from our intellectual property and data around IT patterns, our mission-critical expertise, and our broad ecosystem of partner:

- **We are a leader in technology services.** We are the largest provider of IT infrastructure services and are recognized by research analysts (e.g., Gartner, Forrester, IDC, Everest, NelsonHall, and HfS Research) as a leader in key service areas. We possess significant experience in virtually all industries, gained through collaboration with customers across over 30 years designing, building, and managing operating environments for their IT systems. Our highly skilled workforce provides the expertise (e.g., approximately 13,000 Red Hat accreditations) to securely and reliably handle many of the most complex issues. In conjunction with our delivery capabilities (such as artificial intelligence that augments our people) and scale, we provide mission-critical services to a diversified customer base. We also have unique intellectual property applicable to IT environments, as reflected by our portfolio of approximately 3,000 patents.
- **We consistently deliver unsurpassed performance and reliability for complex environments.** Our expert practitioners and talented engineers provide services through modern ways of working, including agile and design thinking. Additionally, our unique intellectual property and industry-leading technology platforms utilize contemporary approaches to IT operations to provide reliable and efficient solutions for each customer's operating model. These capabilities allow us to execute with secure and compliant operating and delivery models at scale, driving high-quality performance and customer satisfaction. We realize high quality performance across thousands of service-level agreements and consistently achieve world-class customer satisfaction and advocacy.
- **We deliver insights at scale, supported by unique automation capabilities and application of AI.** Our ability to deliver superior outcomes for customers is driven by our capacity to leverage our data around

IT patterns and insights, derived from multiple technology environments across customer engagements. We apply machine learning, combined with our practitioner expertise to derive unique insights used to service customers, enhance our offerings and to produce our next-generation services, investing to ensure continuous innovation for improved outcomes. For example, we are recognized leaders in the use of automation and operational AI in the delivery of our services, with over 6,000,000 automated actions per month, enabling greater quality and efficiency for us and our customers. Our operational AI approach and set of technologies, along with intellectual property that we apply and continually evolve, are leveraged to develop predictive actions to prevent issues before they arise.

- ***We are a recognized leader in managed services for cloud and on-premise environments and services such as security and resiliency.*** We offer a range of high-value capabilities including cloud services, and security & resiliency services, providing us with a sustainable competitive advantage when helping customers transform their technology environments. Our multicloud management capabilities are differentiated by our ability to deliver an integrated view of our customers' diverse technology environments and to provide our services and solutions digitally. We offer integrated services between the cloud and on-premise environments.
- ***We offer an integrated ecosystem to help customers adopt and run an increasingly heterogeneous set of technologies.*** As customers pursue multiple cloud-based technology partners, applications, and capabilities, integration is increasingly critical for customers to manage and orchestrate the technology ecosystem required to run their businesses and achieve their broader objectives. We provide holistic services across thousands of diverse technologies, delivering end-to-end integration across public and private / on-premise cloud platforms and other full-stack technology solutions. Following the Spin-Off, we will enhance our ecosystem of partners, including large public cloud providers, application-oriented system integrators, independent software vendors, and other players in the technology stack to provide the best technology and capability for our customers. Our services and ecosystems enable us to offer leading services for all levels of customer environment complexity and integration.

Our Strategies

We will pursue a strategy centered on our ability to build and enrich trusted relationships with customers and technology partners, differentiating through our proven ability to create and deploy scale-derived intellectual property, provide mission-critical expertise across industries, and partner with a broad ecosystem for contemporary capabilities that best suit customers' needs. We have a strong and long-standing foundation developed by governing and managing complex technology environments, including IBM (e.g., Red Hat and Cloud Paks) and third-party technologies (e.g., VMWare, ServiceNow, and Microsoft). With increased freedom of action, we will extend these capabilities to an even broader ecosystem of technology providers and develop more services that are digitally consumable to expand accessibility to new customers and markets.

We have a long track record of running customers' technology environments, enabling them to focus on the core aspects of their businesses. Given the nature of the work we do, we have a unique perspective on the operating paradigms that enable the high-quality technology environments which our customers have come to rely on for their most critical systems. This position enables us to meet customers where they are in their unique digital transformations, work alongside our customers to take them where they want to be, and in turn enable them to realize the full, at-scale value of that journey. Underpinning all of this are our intellectual property, mission-critical expertise across industries, and a broad ecosystem.

We benefit from the long-standing and deep relationship with IBM. We manage the largest installed base of IBM hardware and software products, including some of the most complex deployments. While we will be an independent and distinct entity following the separation, we will continue to work with IBM on an arms-length basis. In addition to any transition services agreements for services that IBM will provide to us as part of the Spin-Off, they will be part of our partner ecosystem from the standpoint of a technology provider, cloud provider, and application services partner. See "Certain Relationships and Related Party Transactions — Agreements with IBM — Other Arrangements."

As we look to the future, our focus is centered on the following strategic tenets:

- **Scale Insights and Intellectual Property.** We will invest to position ourselves at the forefront of developing and innovating the services and operating paradigms for the evolution and integration of mission critical technology, further expanding our existing intellectual property in differentiated areas. Our depth of experience implementing and operating complex architectures across technology sets has yielded valuable experience and intellectual property that has defined the operating paradigm for much of the technology stack. We have approximately 3,000 patents that relate to various areas of running complex technology environments, including certain patents related to multi-cloud management, orchestration, integrated monitoring, issue triage and resolution, and several other areas that enable quality of service. Our mission-critical expertise across all industries, augmented by our automation platforms that draw on our IP and data, is a key differentiator in managing complex technology environments.
- **Diverse Ecosystem with Freedom of Action.** As an independent entity, we will have the freedom of action to develop a broad ecosystem of strategic partnerships with a wider set of technology and services companies to complement our relationship with IBM. We will invest in an ecosystem of technology providers and corresponding skill-sets that are increasingly relevant as enterprises digitize and transform their business models, building on our existing base of certifications across many market-leading technologies. In parallel, we will extend our operating paradigms and governance and compliance models to this broader set of technologies to integrate and provide end-to-end capabilities for our customers as they digitize and evolve their environments.
- **Digitally Consumable Services Models.** Looking ahead, we see opportunity to further expand in areas where we can better serve customers through consumption models that allow them to experience our services digitally. These models will combine our platforms, our technology governance, and our ecosystem with ease-of-use and scalability, tailored to the needs of specific customer segments such as middle-market enterprises.

To execute these strategies, our operating model will reflect that of a services company, emphasizing customers and resulting in a flatter, faster, and more focused company. We will pursue an investment and co-investment strategy focused on building our team, developing aligned intellectual property and automation, and broadening our ecosystem of partnerships.

The Spin-Off

On October 8, 2020, IBM announced plans for the complete legal and structural separation of our Business from IBM. In reaching the decision to pursue the Spin-Off, IBM considered a range of potential structural alternatives for the Business and concluded that the Spin-Off is the most attractive alternative for enhancing stockholder value. To effect the separation, first, IBM will undertake the series of Reorganization Transactions described under “Certain Relationships and Related Party Transactions — Agreements with IBM — Separation and Distribution Agreement.” IBM will subsequently distribute all of our common stock to IBM’s stockholders, and following the Distribution, Kyndryl, holding the Business, will become an independent, publicly traded company. Prior to completion of the Spin-Off, we intend to enter into a separation and distribution agreement (the “**Separation and Distribution Agreement**”) and several other agreements with IBM related to the Spin-Off. These agreements will govern our relationship with IBM up to and after completion of the Spin-Off and allocate between us and IBM and various assets, liabilities and obligations, including employee benefits, intellectual property and tax-related assets and liabilities. See “Certain Relationships and Related Party Transactions” for more information.

Completion of the Spin-Off is subject to the satisfaction or waiver of a number of conditions. In addition, IBM has the right not to complete the Spin-Off if, at any time, IBM’s board of directors, or the “**IBM Board**,” determines, in its sole and absolute discretion, that the Spin-Off is not in the best interests of IBM or its stockholders, or is otherwise not advisable. See “The Spin-Off — Conditions to the Spin-Off” for more information.

Following the Spin-Off, we and IBM will each have a more focused business that will be better positioned to invest more in growth opportunities and execute strategic plans best suited to address the distinct market trends and opportunities for the respective businesses. Following the Reorganization Transactions, we will hold IBM’s former managed infrastructure services business, and we will have greater

agility to design, run and modernize the technology environments of some of the world’s most important organizations. We plan to focus on further developing our expertise in broad and complex mission-critical IT environments and our separation from IBM will allow IBM to focus on its open hybrid cloud platform and artificial intelligence capabilities. Further, the Spin-Off will allow our management team to devote its time and attention to the corporate strategies and policies that are based specifically on the needs of our Business. We plan to create incentives for our management and employees that align more closely with our business performance and the interests of our stockholders, which will help us attract, retain and motivate highly qualified personnel. Moreover, the Spin-Off is expected to increase the aggregate trading price of each of our and IBM’s common stock above what the trading price of IBM common stock would have had if it had continued to represent an interest in both the businesses, allowing each company to use its stock to pursue and achieve strategic objectives including evaluating and effectuating acquisitions. Additionally, we believe the Spin-Off will help align our stockholder base with the characteristics and risk profile of the respective businesses. See “The Spin-Off — Reasons for the Spin-Off” for more information.

Following the Spin-Off, subject to the approval of our application, we expect our common stock to trade on the _____ under the ticker symbol “_____.”

Our Corporate Information

We were incorporated in December 2020. Our corporate headquarters will be located at One Vanderbilt Avenue, 15th Floor, New York, New York 10017, and our telephone number is _____. Our website address is www.kyndryl.com. Information contained on, or that can be accessed through, our website is not part of, and is not incorporated into, this Information Statement.

Questions and Answers about IBM’s Reasons for the Spin-Off

The following provides only a summary of certain information regarding IBM’s reasons for the Spin-Off. You should read this Information Statement in its entirety for a more detailed description of the matters described below.

Q: *What are the reasons for the Spin-Off?*

A: The IBM Board believes that the separation of the managed infrastructure services business from IBM is in the best interests of IBM stockholders and for the success of the managed infrastructure services business for a number of reasons. See “The Spin-Off — Reasons for the Spin-Off” for more information.

Q: *Why is our separation structured as a spin-off?*

A: IBM believes that a distribution of our shares that is tax-free to IBM and its stockholders for U.S. federal income tax purposes is the most efficient way to separate our business from IBM.

Questions and Answers about the Spin-Off

The following provides only a summary of certain information regarding the Spin-Off. You should read this Information Statement in its entirety for a more detailed description of the matters described below.

Q: *What is the Spin-Off?*

A: The Spin-Off is the method by which we will separate from IBM. In the Spin-Off, IBM will distribute to its stockholders all of the outstanding shares of our common stock. Following the Spin-Off, we will be an independent, publicly traded company, and IBM will not retain any ownership interest in our Company.

Q: *Is the completion of the Spin-Off subject to the satisfaction or waiver of any conditions?*

A: Yes, the completion of the Spin-Off is subject to the satisfaction, or the IBM Board’s waiver, of certain conditions. Any of these conditions may be waived by the IBM Board to the extent such waiver is permitted by law. In addition, IBM may at any time until the Distribution

decide to abandon the Distribution or modify or change the terms of the Distribution. See “The Spin-Off — Conditions to the Spin-Off” for more information.

Q: Will the number of IBM shares I own change as a result of the Spin-Off?

A: No, the number of shares of IBM common stock you own will not change as a result of the Spin-Off.

Q: Will the Spin-Off affect the trading price of my IBM common stock?

A: The trading price of shares of IBM common stock immediately following the Distribution is expected to be lower than the trading price immediately prior to the Distribution because the trading price will no longer reflect the value of the Business. IBM believes that our separation from IBM offers its stockholders the greatest long-term value. There can be no assurance that, following the Distribution, the combined trading prices of the IBM common stock and our common stock will equal or exceed what the trading price of IBM common stock would have been in the absence of the Spin-Off.

It is possible that after the Spin-Off, our and IBM’s combined equity value will be less than IBM’s equity value before the Spin-Off.

Q: What will I receive in the Spin-Off in respect of my IBM common stock?

A: As a holder of IBM common stock, you will receive a dividend of _____ shares of our common stock for every _____ shares of IBM common stock you hold on the Record Date (as defined below). The distribution agent will distribute only whole shares of our common stock in the Spin-Off. See “The Spin-Off — Treatment of Fractional Shares” for more information on the treatment of the fractional share you may be entitled to receive in the Distribution. Your proportionate interest in IBM will not change as a result of the Spin-Off. For a more detailed description, see “The Spin-Off.”

Q: What is being distributed in the Spin-Off?

A: IBM will distribute approximately _____ shares of our common stock in the Spin-Off, based on the approximately _____ shares of IBM common stock outstanding as of _____, 2021. The actual number of shares of our common stock that IBM will distribute will depend on the total number of shares of IBM common stock outstanding on the Record Date. The shares of our common stock that IBM distributes will constitute all of the issued and outstanding shares of our common stock immediately prior to the Distribution. For more information on the shares being distributed in the Spin-Off, see “Description of Our Capital Stock — Common Stock.”

Q: What do I have to do to participate in the Distribution?

A: All holders of IBM’s common stock as of the Record Date will participate in the Distribution. You are not required to take any action in order to participate, but we urge you to read this Information Statement carefully. Holders of IBM common stock on the Record Date will not need to pay any cash or deliver any other consideration, including any shares of IBM common stock, in order to receive shares of our common stock in the Distribution. In addition, no stockholder approval of the Distribution is required. We are not asking you for a vote and request that you do not send us a proxy card.

Q: What is the record date for the Distribution?

A: IBM will determine record ownership as of the close of business on _____, 2021, which we refer to as the “**Record Date**.”

Q: When will the Distribution occur?

A: The Distribution will be effective as of _____, New York City time, on _____, 2021, which we refer to as the “**Distribution Date**.”

Q: How will IBM distribute shares of our common stock?

A: On the Distribution Date, IBM will release the shares of our common stock to the distribution agent to distribute to IBM stockholders. The whole shares of our common stock will be credited in book-entry accounts for IBM stockholders entitled to receive the shares in the Distribution. If you own IBM common stock as of the close of business on _____, 2021, the shares of our common stock that you are entitled to receive in the Distribution will be issued to your account as follows:

Registered stockholders: If you own your shares of IBM common stock directly through IBM's transfer agent (Computershare Trust Company, N.A.), you are a registered stockholder. In this case, the distribution agent will credit the whole shares of our common stock you receive in the Distribution by way of direct registration in book-entry form to a new account with our transfer agent. Registration in book-entry form refers to a method of recording share ownership where no physical stock certificates are issued to stockholders, as is the case in the Distribution. You will be able to access information regarding your book-entry account for shares of our common stock at _____ or by calling _____.

"Street name" or beneficial stockholders: If you own your shares of IBM common stock beneficially through a bank, broker or other nominee, the bank, broker or other nominee holds the shares in "street name" and records your ownership on its books. In this case, your bank, broker or other nominee will credit your account with the whole shares of our common stock that you receive in the Distribution on or shortly after the Distribution Date. We encourage you to contact your bank, broker or other nominee if you have any questions concerning the mechanics of having shares held in "street name."

See "The Spin-Off — When and How You Will Receive Our Shares" for a more detailed explanation.

Q: If I sell my shares of IBM common stock on or before the Distribution Date, will I still be entitled to receive shares of our common stock in the Distribution?

A: If you sell your shares of IBM common stock before the Record Date, you will not be entitled to receive shares of our common stock in the Distribution. If you hold shares of IBM common stock on the Record Date and decide to sell them on or before the Distribution Date, you may have the ability to choose to sell your IBM common stock with or without your entitlement to receive our common stock in the Distribution. You should discuss the available options in this regard with your bank, broker or other nominee. See "The Spin-Off — Trading Prior to the Distribution Date" for more information.

Q: How will fractional shares be treated in the Distribution?

A: The distribution agent will not distribute any fractional shares of our common stock in connection with the Spin-Off. Instead, the distribution agent will aggregate all fractional shares into whole shares and sell the whole shares in the open market at prevailing market prices on behalf of IBM stockholders entitled to receive a fractional share. The distribution agent will then distribute the aggregate cash proceeds of the sales, net of brokerage fees, transfer taxes and other costs, pro rata to these holders (net of any required withholding for taxes applicable to each holder). We anticipate that the distribution agent will make these sales in the "when-issued" market, and "when-issued" trades will generally settle within two trading days following the Distribution Date. See "Q: How will our common stock trade?" for additional information regarding "when-issued" trading and "The Spin-Off — Treatment of Fractional Shares" for a more detailed explanation of the treatment of fractional shares. The receipt of cash in lieu of fractional shares generally will be taxable to the recipient IBM stockholders for U.S. federal income tax purposes as described in the section entitled "Material U.S. Federal Income Tax Consequences of the Spin-Off." The distribution agent will, in its sole discretion, without any influence by IBM or us, determine when, how, through which broker-dealer and at what price to sell the whole shares of our common stock. The distribution agent is not, and any broker-dealer used by the distribution agent will not be, an affiliate of either IBM or us.

Q: What are the U.S. federal income tax consequences to me of the Distribution?

A: Completion of the Spin-Off is conditioned on IBM's receipt of a separate written opinion from Paul, Weiss, Rifkind and Wharton & Garrison LLP to the effect that the Distribution will qualify for non-recognition of gain and loss under Section 355 and related provisions of the Internal Revenue Code of 1986 (the "**Code**"). Accordingly, it is expected that the Distribution, together with certain related transactions, qualifies as a transaction that is tax-free to IBM and IBM's stockholders, for U.S. federal income tax purposes, under Sections 368(a)(1)(D) and 355 of the Code, and thus no gain or loss will be recognized by, or be includible in the income of, a U.S. Holder (as defined in "Material U.S. Federal Income Tax Consequences of the Spin-Off") as a result of the Distribution, except with respect to any cash (if any) received by IBM stockholders in lieu of fractional shares. After the Distribution, IBM stockholders will allocate their basis in their IBM common stock held immediately before the Distribution between their IBM common stock and our common stock in proportion to their relative fair market values on the date of Distribution. IBM may also waive the tax opinion as a condition to the completion of the Spin-Off. IBM does not currently intend to waive this condition to the obligation to complete the Spin-Off. If IBM were to waive this condition, it would communicate such waiver to IBM stockholders in a manner as described in "The Spin-Off — Conditions to the Spin-Off." See "Material U.S. Federal Income Tax Consequences of the Spin-Off" for more information regarding the potential tax consequences to you of the Spin-Off. You should consult your tax advisor as to the particular tax consequences of the Spin-Off to you.

Q: Do I have appraisal rights in connection with the Spin-Off?

A: No. Holders of IBM common stock are not entitled to appraisal rights in connection with the Spin-Off.

Q: Where can I get more information?

A: If you have any questions relating to the mechanics of the Distribution, you should contact the distribution agent at:

Before the Spin-Off, if you have any questions relating to the Spin-Off, you should contact IBM at:

After the Spin-Off, if you have any questions relating to Kyndryl, you should contact us at:

Questions and Answers about Kyndryl

The following provides only a summary of certain information regarding Kyndryl. You should read this Information Statement in its entirety for a more detailed description of the matters described below.

Q: Do we intend to pay cash dividends?

A: Following the separation, the initial combined dividend level of Kyndryl and IBM is expected to be no less than IBM's pre-spin dividend per share. The timing, declaration, amount and payment of future dividends to stockholders will fall within the discretion of our board of directors (our "**Board**"). Among the items we will consider when evaluating the payment of

dividends will be the capital needs of our business and opportunities to retain future earnings for use in the operation of our business and to fund future growth. See “Dividend Policy” for more information.

Q: Will we incur any debt prior to or at the time of the Distribution?

A: In connection with the Spin-Off, we expect to incur indebtedness in an aggregate principal amount of approximately \$ of senior notes and term loans, of which \$ of the net proceeds will be transferred to IBM substantially concurrently with the consummation of the Spin-Off. We also intend to enter into a revolving credit facility, none of which is expected to be drawn at the closing of the Spin-Off. The terms of such indebtedness are subject to change and will be finalized prior to the closing of the Spin-Off. See “Capitalization,” “Unaudited Pro Forma Condensed Combined Financial Statements,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Other Information — Liquidity and Capital Resources” for more information.

Q: How will our common stock trade?

A: We intend to apply to list our common stock on the under the symbol “ .” Currently, there is no public market for our common stock.

We anticipate that trading in our common stock will begin on a “when-issued” basis as early as one trading day prior to the Record Date for the Distribution and will continue up to and including the Distribution Date. “When-issued” trading in the context of a spin-off refers to a sale or purchase made conditionally on or before the Distribution Date because the securities of the spun-off entity have not yet been distributed. “When-issued” trades generally settle within two trading days after the Distribution Date. On the first trading day following the Distribution Date, any “when-issued” trading of our common stock will end and “regular-way” trading will begin. Regular-way trading refers to trading after the security has been distributed and typically involves a trade that settles on the second full trading day following the date of the trade. See “The Spin-Off — Trading Prior to the Distribution Date” for more information. We cannot predict the trading prices for our common stock before, on or after the Distribution Date.

Q: Who is the transfer agent and registrar for our common stock?

A: is the transfer agent and registrar for our common stock.

Q: Are there risks associated with owning shares of our common stock?

A: Yes, there are substantial risks associated with owning shares of our common stock. Accordingly, you should read carefully the information set forth under “Risk Factors” in this Information Statement.

Summary of Risk Factors

An investment in our company is subject to a number of risks. These risks relate to our business, cybersecurity and data privacy, laws and regulations, financing and capital markets activities, the Spin-Off and our common stock and the securities market. Any of these risks and other risks could materially and adversely affect our business, financial condition and results of operations and the actual outcome of matters as to which forward-looking statements are made in this Information Statement. Please read the information in the section captioned “Risk Factors” of this Information Statement for a description of the principal risks that we face.

RISK FACTORS**Risks Relating to Our Business*****A lack of new customers, retention of existing customers and sales of additional services to customers could adversely impact our revenue and results of operations.***

Our ability to maintain or increase our revenues and profit may be impacted by a number of factors, including our ability to attract new customers, retain existing customers and sell additional, comparable gross margin services to our customers. We may incur higher customer acquisition or retention costs as a result of the Spin-Off and as we seek to grow our customer base and expand our markets. Moreover, to the extent we are unable to retain and sell additional services to existing customers, our revenue and results of operations may decrease. Our outsourcing customer contracts typically have an average duration of over five years and, unless terminated, may be renewed or automatically extended on a month-to-month basis. Our customers have no obligation to renew their services after their initial contract periods expire and any termination fees associated with an early termination may not be sufficient to recover our costs associated with such contracts. The loss of business from any of our major customers, whether by the cancellation of existing contracts, the failure to obtain new business or lower overall demand for our services, could adversely impact our revenue and results of operations.

Technological developments and the speed by which we respond to them could adversely impact our long-term success.

Our business depends on generating and maintaining ongoing, profitable customer demand for our services and solutions, including through the creation, adaptation and expansion of our services and solutions in response to ongoing changes in technology. A significant reduction in such demand or a failure to invest in strategic growth areas could materially affect our results of operations. Technological developments may cause customers to delay spending under existing contracts and engagements, or to delay entering into new contracts while they evaluate new technologies, which could negatively impact our results of operations if we are unable to introduce new commercial models that reflect the value of these technological developments or if customer spending on new technologies is not sufficient to make up any shortfall caused by such delays.

We may not meet our growth and productivity objectives.

Our goals for profitability and capital return following the Spin-Off rely upon a number of assumptions, including our ability to make successful investments to grow and further develop our business and simplify our operations. The risks and challenges we face in connection with our strategies include expanding our professional services capability, expanding in geographies where we currently have a small presence and ensuring that our services remain competitive in a rapidly changing technological environment. We may invest significantly in key strategic areas to drive long-term revenue growth and market share gains. These investments may adversely affect our near-term revenue growth and results of operations, and we cannot guarantee that they will ultimately be successful. Customer adoption rates and viable economic models are less certain in highly competitive segments. Additionally, emerging business and delivery models may unfavorably impact demand and profitability for our solutions or services. If we are unable to find partners to develop cutting-edge innovations in a highly competitive and rapidly evolving environment, or are unable to implement and integrate such innovations with sufficient speed and versatility, we could fail in our ongoing efforts to maintain and increase our market share and profit margins.

Competition in the markets in which we operate may adversely impact our results of operations.

Our competitors include incumbents that have expanded their offerings to migration and management of cloud-based environments; companies that utilize labor-based models and leverage talent pools primarily in lower-cost countries that have grown to offer a broad range of services with a worldwide presence; and advisory-focused system integrators specializing in bringing together disparate technology environments so that they function as one. Our competitiveness is based on factors including quality of services, technical skills and capabilities, industry knowledge and experience, financial value, ability to innovate, intellectual

property and methods, contracting flexibility, and speed of execution. If we are unable to compete based on such factors, our results of operations and business prospects could be harmed.

This competition may decrease our revenue and place downward pressure on operating margins in our industry, particularly for contract extensions or renewals. As a result, we may not be able to maintain our current revenue and operating margins, or achieve favorable operating margins, for contracts extended or renewed in the future. If we fail to create and sustain an efficient and effective cost structure that scales with revenues during periods with declining revenues, our margins and results of operations may be adversely affected.

We have a large portfolio of services and we need to strategically allocate financial, personnel and other resources across these services while competing with companies that have smaller portfolios or specialize in one or more of our service lines. Our competitors may have greater financial, technical and marketing resources available to them compared to the resources allocated to our services. In addition, competitors who have a greater presence and brand recognition in some of the markets in which we compete, or who can provide more favorable contractual terms and conditions, may be more successful at winning new business. Industry consolidation may also affect competition by creating larger and potentially stronger competitors in the markets in which we operate, furthering pressuring margins. Additionally, competitors may affect our business by entering into exclusive arrangements with existing or potential customers or suppliers. Companies with whom we have alliances in certain areas may be or become competitors in other areas. In addition, companies with whom we have alliances also may acquire or form alliances with competitors, which could reduce their business with us. If we are unable to effectively manage these complicated relationships with alliance partners, our business and results of operations could be adversely affected.

Our business could be adversely impacted by our relationships with critical suppliers and partners.

Our business employs a wide variety of products and services from a number of suppliers and partners around the world. Our relationships with our partners, who supply us with necessary components to the services and solutions we offer our customers, are also critical to our ability to provide many of our services and solutions that address customer demands. There can be no assurance that we will be able to maintain such relationships, including in light of our separation from IBM. Among other things, such partners may in the future decide to compete with us, form exclusive or more favorable arrangements with our competitors or otherwise reduce our access to their products impairing our ability to provide the services and solutions demanded by customers. Further, changes in the business condition (financial or otherwise) of these suppliers or partners could subject us to losses and affect our ability to bring our offerings to market. Additionally, the failure of our suppliers and partners to deliver products and services in sufficient quantities, in a timely manner, and in compliance with all applicable laws and regulations could adversely affect our business. Any defective products or inadequate services received from suppliers or partners could reduce the reliability of our services and harm our reputation.

If we are unable to attract and retain key personnel and other skilled employees, our business could be harmed.

If any of our key employees were to leave, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience. Although we have arrangements with some of our executive officers designed to promote retention, our employment relationships are generally at-will and key employees may leave us. We cannot assure you that one or more key employees will not leave in the future. We intend to continue to hire additional highly qualified personnel but may not be able to attract, assimilate or retain similarly qualified personnel in the future.

In addition, much of our future success depends on the continued service, availability and integrity of skilled employees, including technical, marketing and staff resources. Skilled and experienced personnel in the areas where we compete are in high demand, and competition for their talents is intense. Our inability to retain skilled employees could intensify the adverse impact of a shortage of critical skills. Changing demographics and labor workforce trends also may result in a shortage of or insufficient knowledge and skills. Further, as global opportunities and industry demand shifts, realignment, training and scaling of skilled resources may not be sufficiently rapid or successful. Any failure to attract, integrate, motivate and retain these employees could harm our business.

Due to our global presence, our business and operations could be adversely impacted by local legal, economic, political, health and other conditions, including the COVID-19 pandemic.

We are a globally integrated company and have operations worldwide. Changes in the laws or policies of the countries in which we operate, or inadequate development or enforcement of such laws or policies, could affect our business and our overall results of operations. Further, we may be impacted directly or indirectly by the development and enforcement of laws and regulations in the U.S. and globally that are specifically targeted at the technology industry. Our results of operations also could be affected by economic and political changes in those countries and by macroeconomic changes, including recessions, inflation, currency fluctuations between the U.S. dollar and non-U.S. currencies and adverse changes in trade relationships amongst those countries. As we expand our customer base and the scope of our offerings, both within the United States and globally, we may be further impacted by additional regulatory or other risks, including compliance with U.S. and foreign data privacy requirements, data localization requirements, labor relations laws, enforcement of IP protection laws, laws relating to anti-corruption, anti-competition regulations, and import, export and trade restrictions. Further, international trade disputes could create uncertainty. Tariffs and international trade sanctions resulting from these disputes could affect our ability to move goods and services across borders, or could impose added costs to those activities. Measures taken to date by us to mitigate these impacts could be made less effective should trade sanctions or tariffs change. In addition, any widespread outbreak of an illness, pandemic or other local or global health issue, natural disasters including those that could be related to climate change impacts, or uncertain political climates, international hostilities, or any terrorist activities, could adversely affect customer demand, our operations and supply chain, and our ability to source and deliver solutions to our customers. For example, the COVID-19 pandemic has created significant volatility, uncertainty and economic disruption. In the current macroeconomic environment, customers continue to balance short-term challenges and opportunities for transformation. While some customers have begun to accelerate their digital transformation and increase their expenditures, the short-term priorities of other customers continue to be focused on operational stability, flexibility and cash preservation, and as such, we may experience some disruptions in transactional performance. Additionally, customers' short-term priorities, as well as quarantines, limitations on travel and other factors associated with the COVID-19 pandemic may result in delays in some services projects. Another example, the U.K.'s withdrawal from the E.U., commonly referred to as "Brexit," has caused global economic, trade and regulatory uncertainty. We are actively monitoring and planning for possible impacts from Brexit.

A downturn in the economic environment and customer spending budgets could adversely impact our business.

Our overall performance depends in part on global macroeconomic and geopolitical conditions, which can change suddenly and unpredictably. Because we operate globally and have significant businesses in many markets, an economic slowdown in any of those markets could adversely affect our results of operations. If overall demand for our solutions decreases, or if customers decide to reduce their spending budgets as a result of such conditions, including those associated with the COVID-19 pandemic, our revenue and profit could be materially and adversely impacted.

Damage to our reputation could adversely impact our business.

Our reputation may be susceptible to damage by events such as significant disputes with customers, internal control deficiencies, delivery failures, cybersecurity incidents, government investigations or legal proceedings or actions of current or former customers, directors, employees, competitors, vendors, alliance partners or joint venture partners. If we fail to gain a positive reputation as leader in our field, or if our brand image is tarnished by negative perceptions, our ability to attract and retain customers and talent could be impacted.

If we are unable to accurately estimate the cost of services and the timeline for completion of contracts, the profitability of our contracts may be materially and adversely affected.

Our commercial contracts are typically awarded on a competitive or "Sole source" basis. Our bids are based upon, among other items, the expected price to provide the services. We are dependent on our internal forecasts and predictions about our projects and the marketplace and, to generate an acceptable return on

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Pursuant to 17 C.F.R. Section 200.83**

our investment in these contracts, we must be able to accurately estimate our costs to provide the services required by the contract and to complete the contracts in a timely manner. We face a number of risks when pricing our contracts, as many of our projects entail the coordination of operations and workforces in multiple locations and utilizing workforces with different skill sets and competencies across geographically diverse service locations. In addition, revenues from some of our contracts are recognized using the percentage-of-completion method, which requires estimates of total costs at completion, fees earned on the contract, or both. This estimation process, particularly due to the technical nature of the services being performed and the long-term nature of certain contracts, is complex and involves significant judgment. Adjustments to original estimates are often required as work progresses, experience is gained, and additional information becomes known, even though the scope of the work required under the contract may not change. If we fail to accurately estimate our costs or the time required to complete a contract, the profitability of our contracts may be materially and adversely affected.

Service delivery issues could adversely impact our business and operating results.

We have customer agreements in place that include certain service level commitments. If we are unable to meet such commitments, we may be contractually obligated to pay penalties or provide these customers with service credits for a portion of the service fees paid by our customers. However, we cannot be assured that our customers will accept these penalties or credits in lieu of other legal remedies that may be available to them. Our failure to meet our commitments could also result in customer dissatisfaction or loss and have an adverse effect on our business, financial condition and results of operations.

Risks from acquisitions, alliances and dispositions include integration challenges, failure to achieve objectives, the assumption of liabilities and higher debt levels.

Subject in certain circumstances to the consent of IBM under the Tax Matters Agreement, as discussed in “— Risks Relating to the Spin-Off,” we may decide to make acquisitions, alliances and dispositions in furtherance of our strategy. Such transactions present significant challenges and risks and there can be no assurances that we will identify or manage such transactions successfully or that strategic opportunities will be available to us on acceptable terms or at all. The related risks include us failing to achieve strategic objectives, anticipated revenue improvements and cost savings, the failure to retain key strategic relationships of acquired companies, the failure to retain key personnel and the assumption of liabilities related to litigation or other legal proceedings involving the businesses in such transactions, as well as the failure to close planned transactions. Such transactions may require us to secure financing and the indebtedness we incur concurrently with or prior to the Distribution may limit the availability of financing to us or the favorability of the terms of available financing. If we do acquire other companies, we may not realize all the economic benefit from those acquisitions, which could cause an impairment of goodwill or intangible assets. If our goodwill or net intangible assets become impaired, we may be required to record a charge to our Combined Income Statement.

We could be adversely impacted by our business with government customers.

Our customers include numerous governmental entities within and outside the United States, including foreign governments and U.S. state and local entities. Some of our agreements with these customers may be subject to periodic funding approval. Funding reductions or delays could adversely impact public sector demand for our services. Also, government contracts tend to have additional requirements beyond commercial contracts and, for example, may contain provisions providing for higher liability limits for certain losses. In addition, we could be suspended or debarred as a governmental contractor and could incur civil and criminal fines and penalties, which could negatively impact our results of operations, financial results and reputation.

Intellectual property matters could adversely impact our business.

Our intellectual property rights may not prevent competitors from independently developing services similar to or duplicative to ours, nor can there be any assurance that the resources invested by us to protect our intellectual property will be sufficient or that our intellectual property portfolio will adequately deter misappropriation or improper use of our technology. Our ability to protect our intellectual property could

also be impacted by changes to existing laws, legal principles and regulations governing intellectual property. Further, we rely on third party intellectual property rights, open source software, and other third-party software in providing some of our services and solutions and there can be no assurances that we will be able to obtain from third parties the licenses we need in the future. If we cannot obtain licenses to third party intellectual property on commercially reasonable terms, or if we must obtain alternative or substitute technology or to redesign services, our business may be adversely affected. Additionally, we cannot be sure that our services and solutions, or the solutions of others that we offer to our customers, do not infringe on the intellectual property rights of third parties (including competitors as well as non-practicing holders of intellectual property assets), and these third parties could claim that we, our customers or parties indemnified by us are infringing upon their intellectual property rights. In addition, we may be the target of aggressive and opportunistic enforcement of patents by third parties, including patent assertion entities and non-practicing entities. These claims, even if we believe they have no merit, could subject us to a temporary or permanent injunction or damages, harm our reputation, divert management attention and resources, and cause us to incur substantial costs or prevent us from offering some services or solutions in the future. Even if we have an agreement providing for third parties to indemnify us for the foregoing claims, the indemnifying parties may be unwilling or unable to fulfill their contractual obligations.

Risks Relating to Cybersecurity and Data Privacy

Cybersecurity and privacy considerations could adversely impact our business.

There are numerous and evolving risks to cybersecurity and privacy, including risks originating from intentional acts of criminal hackers, hacktivists and nation states; from intentional and unintentional acts of customers, contractors, business partners, vendors, employees, competitors and other third parties; and from errors in processes or technologies, as well as the risks associated with an increase in the number of customers, contractors, business partners, vendors, employees and other third parties working remotely as a result of the COVID-19 pandemic. Computer hackers and others routinely attack the security of technology products, services, systems and networks using a wide variety of methods, including ransomware or other malicious software and attempts to exploit vulnerabilities in hardware, software, and infrastructure. Attacks also include social engineering to fraudulently induce customers, contractors, business partners, vendors, employees and other third parties to disclose information, transfer funds, or unwittingly provide access to systems or data. We are at risk of security breaches not only of our own services, systems and networks, but also those of customers, contractors, business partners, vendors, employees and other third parties. Cyber threats are continually evolving, making it difficult to defend against certain threats and vulnerabilities that can persist undetected over extended periods of time. Our services, systems and networks, including cloud-based systems and systems and technologies that we maintain on behalf of our customers, may be used in critical company, customer or third-party operations, and involve the storage, processing and transmission of sensitive data, including valuable intellectual property, other proprietary or confidential data, regulated data, and personal information of employees, customers and others. These services, systems and networks are also used by customers in heavily regulated industries, including those in the financial services, healthcare, critical infrastructure and government sectors. Successful cybersecurity attacks or other security incidents could result in, for example, one or more of the following: unauthorized access to, disclosure, modification, misuse, loss, or destruction of company, customer, or other third party data or systems; theft or import or export of sensitive, regulated, or confidential data including personal information and intellectual property; the loss of access to critical data or systems through ransomware, crypto mining, destructive attacks or other means; and business delays, service or system disruptions or denials of service. In the event of such actions, we, our customers and other third parties could be exposed to liability, litigation, and regulatory or other government action, as well as the loss of existing or potential customers, damage to brand and reputation, damage to our competitive position, and other financial loss. In addition, the cost and operational consequences of responding to cybersecurity incidents and implementing remediation measures could be significant. In our industry, security vulnerabilities are increasingly discovered, publicized and exploited across a broad range of hardware, software or other infrastructure, elevating the risk of attacks and the potential cost of response and remediation for us and our customers. In addition, the fast-paced, evolving, pervasive, and sophisticated nature of certain cyber threats and vulnerabilities, as well as the scale and complexity of the business and infrastructure, make it possible that certain threats or vulnerabilities will be undetected or unmitigated in time to prevent or minimize the impact of an attack on us or our

customers. Cybersecurity risk to us and our customers also depends on factors such as the actions, practices and investments of customers, contractors, business partners, vendors and other third parties. Cybersecurity attacks or other catastrophic events resulting in disruptions to or failures in power, information technology, communication systems or other critical infrastructure could result in interruptions or delays to company, customer, or other third party operations or services, financial loss, injury or death to persons or property, potential liability, and damage to brand and reputation. Although we continuously take significant steps to mitigate cybersecurity risk across a range of functions, such measures can never eliminate the risk entirely or provide absolute security. To date, while we continue to monitor for, identify, investigate, respond to, remediate and develop plans to quickly recover from cybersecurity incidents, there have not been cybersecurity incidents that have had a material adverse effect on us, though there is no assurance that there will not be cybersecurity incidents that will have a material adverse effect in the future.

As a global enterprise, the regulatory environment with regard to cybersecurity, privacy and data protection issues is increasingly complex and will continue to impact our business, including through increased risk, increased costs, and expanded or otherwise altered compliance obligations. As our reliance on data grows, the potential impact of regulations on our business, risks, and reputation will grow accordingly. The enactment and expansion of data protection and privacy laws and regulations around the globe, including an increased focus on international data transfer mechanisms driven by the European Court of Justice decision in the Schrems II matter; the lack of harmonization of such laws and regulations; the increase in associated litigation and enforcement activity; the potential for damages, fines and penalties; and the potential regulation of new and emerging technologies, such as artificial intelligence, will continue to result in increased compliance costs and risks. Any additional costs and penalties associated with increased compliance, enforcement and risk reduction could make certain offerings less profitable or increase the difficulty of bringing certain offerings to market.

Risks Relating to Laws and Regulations

Tax matters could impact our results of operations and financial condition.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. We calculate and provide for taxes in each tax jurisdiction in which we operate. Tax accounting often involves complex matters and requires our judgment to determine our worldwide provision for income taxes and other tax liabilities. Our provision for income taxes and cash tax liability in the future could be adversely affected by numerous factors including, but not limited to, income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities, and changes in tax laws, regulations, accounting principles or interpretations thereof, which could adversely impact our results of operations and financial condition in future periods. The Organization for Economic Cooperation and Development (OECD) continues to issue guidelines that are different, in some respects, than long-standing international tax principles. As countries unilaterally amend their tax laws to adopt certain parts of the OECD guidelines, this may increase tax uncertainty and may adversely impact our income taxes. Local country, state, provincial or municipal taxation may also be subject to review and potential override by regional, federal, national or similar forms of government, which may also adversely impact our income taxes. It is likely that our tax returns could be examined by taxing authorities in the jurisdictions in which we do business which also could adversely impact our income tax provision.

We are subject to legal proceedings and investigatory risks.

As a company with approximately 90,000 employees and with customers in over 100 countries, we are or may become involved as a party and/or may be subject to a variety of claims, demands, suits, investigations, tax matters and other proceedings that arise from time to time in the ordinary course of our business. The risks associated with such legal proceedings are described in more detail in note K, "Commitments and Contingencies" in the combined financial statements elsewhere in this Information Statement. We believe that we have adopted appropriate risk management and compliance programs. Legal and compliance risks, however, will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, may arise from time to time.

We could incur costs for environmental matters.

We are subject to various federal, state, local and foreign laws and regulations concerning the discharge of materials into the environment or otherwise related to environmental protection. We could incur costs, including cleanup costs, fines and civil or criminal sanctions, as well as third-party claims for property damage or personal injury, if we were to violate or become liable under environmental laws and regulations. Compliance with environmental laws and regulations is not expected to have a material adverse effect on our financial position, results of operations and competitive position.

Risks Relating to Financing and Capital Markets Activities***The commercial and credit environment may adversely affect our access to capital.***

Our ability to issue debt or enter into other financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for our services or in the solvency of our customers or suppliers or if there are other significantly unfavorable changes in economic conditions. Volatility in the world financial markets could increase borrowing costs or affect our ability to access the capital markets. These conditions may adversely affect our ability to obtain targeted credit ratings prior to and following the Spin-Off.

Our financial performance could be adversely impacted by changes in market liquidity conditions and by customer credit risk on receivables.

Our financial performance is exposed to a wide variety of industry sector dynamics worldwide, including sudden shifts in regional or global economic activity such as those associated with the COVID-19 pandemic. Our earnings and cash flows, as well as our access to funding, could be negatively impacted by changes in market liquidity conditions. Our customer base includes many worldwide enterprises, from small and medium businesses to the world's largest organizations and governments, with a significant portion of our revenue coming from global customers across many sectors. If we become aware of information related to the creditworthiness of a major customer, or if future actual default rates on receivables in general differ from those currently anticipated, we may have to adjust our allowance for credit losses, which could affect our net income in the period the adjustments are made.

Our results of operations and financial condition could be negatively impacted by our pension plans.

Adverse financial market conditions and volatility in the credit markets may have an unfavorable impact on the value of our pension trust assets and its future estimated pension liabilities. As a result, our financial results in any period could be negatively impacted. In addition, in a period of an extended financial market downturn, we could be required to provide incremental pension plan funding with resulting liquidity risk which could negatively impact our financial flexibility. Further, our results could be negatively impacted by premiums for mandatory pension insolvency insurance coverage outside the United States. Premium increases could be significant due to the level of insolvencies of unrelated companies in the country at issue.

We are exposed to currency risk that could adversely impact our revenue and business.

We derive a significant percentage of our revenues and costs from our affiliates operating in local currency environments, and those results are affected by changes in the relative values of non-U.S. currencies and the U.S. dollar, as well as sudden shifts in regional or global economic activity such as those associated with the COVID-19 pandemic. In addition, large changes in foreign exchange rates relative to our functional currencies could increase the costs of our services to customers relative to local competitors, thereby causing us to lose existing or potential customers to these local competitors. Further, as we grow our international operations, our exposure to foreign currency risk could become more significant. We have not independently executed derivative financial instruments to manage our foreign currency risk and instead have participated in a centralized foreign currency hedging program administered by IBM to reduce foreign currency volatility. Our current strategy does not include hedging all of our foreign currency exposures and the hedges placed through the centralized program may not fully mitigate our foreign currency risk or may prove disadvantageous. At the time of the Spin-Off, we intend to have our own risk management program,

hedging foreign currency exposure and interest rate risk. See “— Risks Relating to the Spin-Off — We may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent, publicly traded company, and we may experience increased costs after the Spin-Off.”

Risks Relating to the Spin-Off

The Spin-Off could result in significant tax liability to IBM and its stockholders if it is determined to be a taxable transaction.

Completion of the Spin-Off is conditioned on IBM’s receipt of a written opinion from Paul, Weiss, Rifkind and Wharton & Garrison LLP to the effect that the Distribution will qualify for non-recognition of gain and loss under Section 355 and related provisions of the Code. IBM can waive receipt of the tax opinion as a condition to the completion of the Spin-Off.

The opinion of counsel does not address any U.S. state or local or foreign tax consequences of the Spin-Off. The opinion assumes that the Spin-Off will be completed according to the terms of the Separation and Distribution Agreement and relies on the facts as stated in the Separation and Distribution Agreement, the Tax Matters Agreement, the other ancillary agreements, this Information Statement and a number of other documents. In addition, the opinion is based on certain representations as to factual matters from, and certain covenants by IBM and us. The opinion cannot be relied on if any of the assumptions, representations or covenants is incorrect, incomplete or inaccurate or is violated in any material respect.

The opinion of counsel is not binding on the IRS or the courts, and there can be no assurance that the IRS or a court will not take a contrary position. If the conclusions expressed in the opinion are challenged by the IRS, and if the IRS prevails in such challenge, the tax consequences of the Spin-Off could be materially less favorable.

If the Spin-Off were determined not to qualify for non-recognition of gain or loss under Section 355 and related provisions of the Code, each U.S. Holder who receives our common stock in the Distribution would generally be treated as receiving a distribution in an amount equal to the fair market value of our common stock received, which would generally result in: (1) a taxable dividend to the U.S. Holder to the extent of that U.S. Holder’s *pro rata* share of IBM’s current or accumulated earnings and profits; (2) a reduction in the U.S. Holder’s basis (but not below zero) in IBM common stock to the extent the amount received exceeds the stockholder’s share of IBM’s earnings and profits; and (3) taxable gain from the exchange of IBM common stock to the extent the amount received exceeds the sum of the U.S. Holder’s share of IBM’s earnings and profits and the U.S. Holder’s basis in its IBM common stock. See below and “Material U.S. Federal Income Tax Consequences of the Spin-Off.”

If the Spin-Off were determined not to qualify as tax-free for U.S. federal income tax purposes, we could have an indemnification obligation to IBM, which could adversely affect our business, financial condition and results of operations.

If, as a result of any of our representations being untrue or our covenants being breached, the Spin-Off were determined not to qualify for non-recognition of gain or loss under Section 355 and related provisions of the Code, we could be required to indemnify IBM for the resulting taxes and related expenses. Those amounts could be material. Any such indemnification obligation could adversely affect our business, financial condition and results of operations.

In addition, if we or our stockholders were to engage in transactions that resulted in a 50% or greater change by vote or value in the ownership of our stock during the four-year period beginning on the date that begins two years before the date of the Distribution, the Spin-Off would generally be taxable to IBM, but not to stockholders, under Section 355(e), unless it were established that such transactions and the Spin-Off were not part of a plan or series of related transactions. If the Spin-Off were taxable to IBM due to such a 50% or greater change in ownership of our stock, IBM would recognize gain equal to the excess of the fair market value on the Distribution Date of our common stock distributed to IBM stockholders over IBM’s tax basis in our common stock, and we generally would be required to indemnify IBM for the tax on such gain and related expenses. Those amounts could be material. Any such indemnification obligation

could adversely affect our business, financial condition and results of operations. See “Certain Relationships and Related Party Transactions — Agreements with IBM — Tax Matters Agreement.”

We intend to agree to numerous restrictions to preserve the non-recognition treatment of the Spin-Off, which may reduce our strategic and operating flexibility.

To preserve the tax-free nature of the Spin-Off and related transactions, we intend to agree in the Tax Matters Agreement to covenants and indemnification obligations that address compliance with Section 355 of the Code and related provisions of the Code, as well as state, local and foreign tax law. These covenants will include certain restrictions on our activity for a period of two years following the Spin-Off. Specifically, we will be subject to certain restrictions on our ability to enter into acquisition, merger, liquidation, sale and stock redemption transactions with respect to our stock or assets. In addition, under the Tax Matters Agreement, we may be required to indemnify IBM against any such tax liabilities as a result of the acquisition of our stock or assets, even if we do not participate in or otherwise facilitate the acquisition. Furthermore, we will be subject to specific restrictions on discontinuing the active conduct of our trade or business, the issuance or sale of stock or other securities (including securities convertible into our stock but excluding certain compensatory arrangements), and sales of assets outside the ordinary course of business. These covenants and indemnification obligations may limit our ability to pursue strategic transactions or engage in new businesses or other transactions that may maximize the value of our business, and might discourage or delay a strategic transaction that our stockholders may consider favorable. See “Certain Relationships and Related Party Transactions — Agreements with IBM — Tax Matters Agreement.”

We may be unable to achieve some or all of the benefits that we expect to achieve from the Spin-Off.

We may be unable to achieve the full strategic and financial benefits expected to result from the separation and distribution, or such benefits may be delayed or not occur at all. We believe that, as an independent, publicly traded company, we will be able to, among other things, more effectively focus on pursue our own distinct operating priorities and strategies, position us as a global leader in our industry with the ability to better address specific market dynamics and target innovation, increase the aggregate trading price of the stock of IBM and Kyndryl above the trading price that the stock of IBM would have had if it had continued to represent an interest in both the businesses, create incentives for our management and employees that align more closely with our business performance and the interests of our stockholders, and allow us to articulate a clear investment proposition and tailored capital allocation policy to attract a long-term investor base best suited to our business needs. We may be unable to achieve some or all of the benefits that we expect to achieve as an independent company in the time we expect, if at all, for a variety of reasons, including: (i) the completion of the Spin-Off will require significant amounts of our management’s time and effort, which may divert management’s attention from operating and growing our business; (ii) following the Spin-Off, we may be more susceptible to market fluctuations and other adverse events than if it were still a part of IBM; (iii) following the Spin-Off, our businesses will be less diversified than IBM’s businesses prior to the separation; (iv) the other actions required to separate IBM’s and our respective businesses could disrupt our operations; and (v) under the terms of the Tax Matters Agreement, we will be restricted from taking certain actions that could cause the Distribution to fail to qualify as a tax-free transaction and these restrictions may limit us for a period of time from pursuing strategic transactions and equity issuances or engaging in other transactions that may increase the value of our business. If we fail to achieve some or all of the benefits that we expect to achieve as an independent company, or do not achieve them in the time we expect, our business, financial condition and results of operations could be adversely affected.

The terms we will receive in our agreements with IBM could be less beneficial than the terms we may have otherwise received from unaffiliated third parties.

The agreements we will enter into with IBM in connection with the separation, will be negotiated prior to the Spin-Off, at a time when our business will still be operated by IBM. The agreements generally will be entered into on arms-length terms similar to those that would be agreed with an unaffiliated third party such as a buyer in sale transaction, but we will not have an independent board of directors or a management team independent of IBM representing its interests while the agreements are being negotiated. In addition, until the Distribution occurs, we will continue to be a wholly owned subsidiary of IBM and, accordingly, IBM

will still have the discretion to determine and change the terms of the separation until the Distribution Date. As a result of these factors, the terms of those agreements may not reflect terms that would have resulted from arm's-length negotiations between unaffiliated third parties and it is possible that we might have been able to achieve more favorable terms if the circumstances differed. See "Certain Relationships and Related Party Transactions."

Our customers, prospective customers, suppliers or other companies with whom we conduct business may need assurances that our financial stability on a stand-alone basis is sufficient to satisfy their requirements for doing or continuing to do business with them.

Some of our customers, prospective customers, suppliers or other companies with whom we conduct business may need assurances that our financial stability on a stand-alone basis is sufficient to satisfy their requirements for doing or continuing to do business with them. Any failure of parties to be satisfied with our financial stability could have an adverse effect on our business, financial condition, results of operations and cash flows.

Following the Spin-Off, we could incur substantial additional costs and experience temporary business interruptions, and we may not be adequately prepared to meet the requirements of an independent, publicly traded company.

In connection with the Spin-Off, we have been installing and implementing information technology infrastructure to support certain of our business functions, including accounting and reporting, human resources, sales operations, customer service, and fulfillment. We may incur substantially higher costs than currently anticipated as we transition from the existing transactional and operational systems and data centers we currently use as part of IBM. If we are unable to transition effectively, we may incur temporary interruptions in business operations. Any delay in implementing, or operational interruptions suffered while implementing, our new information technology infrastructure could disrupt our business and have a material adverse effect on our results of operations.

In addition, if we are unable to replicate or transition certain systems, our ability to comply with regulatory requirements could be impaired. As a result of the Spin-Off, we will be directly subject to reporting and other obligations under the U.S. Securities and Exchange Act of 1934, as amended (the "**Exchange Act**"). Beginning with our second required Annual Report on Form 10-K, we intend to comply with Section 404 of the Sarbanes Oxley Act of 2002, as amended (the "**Sarbanes Oxley Act**"), which will require annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm on the effectiveness of internal control over financial reporting. These reporting and other obligations may place significant demands on management, administrative and operational resources, including accounting systems and resources.

The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. Under the Sarbanes Oxley Act, we are required to maintain effective disclosure controls and procedures and internal controls over financial reporting. To comply with these requirements, we may need to upgrade our systems, implement additional financial and management controls, reporting systems and procedures and hire additional accounting and finance staff. We expect to incur additional annual expenses for the purpose of addressing these, and other public company reporting, requirements. If we are unable to upgrade our financial and management controls, reporting systems, information technology systems and procedures in a timely and effective fashion, our ability to comply with financial reporting requirements and other rules that apply to reporting companies under the Exchange Act could be impaired, and we may be unable to conclude that our internal control over financial reporting is effective and to obtain an unqualified report on internal controls from our auditors as required under Section 404 of the Sarbanes-Oxley Act. Any failure to achieve and maintain effective internal controls could have a material adverse effect on our business, financial condition, results of operations and cash flow.

We may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent, publicly traded company, and we may experience increased costs after the Spin-Off.

We have historically operated as part of IBM's corporate organization, and IBM has provided us with various corporate functions. Following the Spin-Off, IBM will have no obligation to provide us with

assistance other than the transition and other services described under “Certain Relationships and Related Party Transactions.” These services do not include every service that we have received from IBM in the past, and IBM is only obligated to provide the transition services for limited periods following completion of the Spin-Off. Following the Spin-Off and the cessation of any transition services agreements, we will need to provide internally or obtain from unaffiliated third parties the services we will no longer receive from IBM. We may be unable to replace these services in a timely manner or on terms and conditions as favorable as those we receive from IBM. Because our business has historically operated as part of the wider IBM organization, we may be unable to successfully establish the infrastructure or implement the changes necessary to operate independently, or may incur additional costs that could adversely affect our business. In particular, our ability to position and market ourselves as a provider of technology services could be adversely affected by our loss of access to IBM’s development platforms. If we fail to obtain the quality of services necessary to operate effectively or incur greater costs in obtaining these services, our business, financial condition and results of operations may be adversely affected.

As an independent, publicly traded company, we may not enjoy the same benefits that we did as a part of IBM.

There is a risk that, by separating from IBM, we may become more susceptible to market fluctuations and other adverse events than we would have been if we were still a part of the current IBM organizational structure. As part of IBM, we have been able to enjoy certain benefits from IBM’s operating diversity, size, purchasing power, lower cost of capital and opportunities to pursue integrated strategies with IBM’s other businesses. As an independent, publicly traded company, we will not have the same benefits. Additionally, as part of IBM, we have been able to leverage the IBM historical market reputation and performance and brand identity to recruit and retain key personnel to run and operate our business. As an independent, publicly traded company, we will not have the same historical market reputation and performance or brand identity as IBM and it may be more difficult for us to recruit or retain such key personnel.

We have no operating history as an independent, publicly traded company, and our historical combined financial information is not necessarily representative of the results we would have achieved as an independent, publicly traded company and may not be a reliable indicator of our future results.

We derived the historical combined financial information included in this Information Statement from IBM’s consolidated financial statements, and this information does not necessarily reflect the results of operations and financial position we would have achieved as an independent, publicly traded company during the periods presented, or those that we will achieve in the future. This is primarily because of the following factors:

- Prior to the Spin-Off, we operated as part of IBM’s broader corporate organization, and IBM performed various corporate functions for us. Our historical combined financial information reflects allocations of corporate expenses from IBM for these and similar functions. These allocations may not reflect the costs we will incur for similar services in the future as an independent publicly traded company.
- We will enter into transactions with IBM that did not exist prior to the Spin-Off, such as IBM’s provision of transition and other services, and undertake indemnification obligations, which will cause us to incur new costs. See “Certain Relationships and Related Party Transactions — Agreements with IBM.”
- Our historical combined financial information does not reflect changes that we expect to experience in the future as a result of our separation from IBM, including changes in the financing, cash management, operations, cost structure and personnel needs of our business. As part of IBM, we enjoyed certain benefits from IBM’s operating diversity, reputation, size, purchasing power, borrowing leverage and available capital for investments, and we will lose these benefits after the Spin-Off. As an independent entity, we may be unable to purchase goods, services and technologies, such as insurance and health care benefits and computer software licenses, or access capital markets, on terms as favorable to us as those we obtained as part of IBM prior to the Spin-Off, and our results of operations may be adversely affected. In addition, our historical combined financial data do not include an allocation of interest expense comparable to the interest expense we will incur as a result of

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

the Reorganization Transactions and the Spin-Off, including interest expense in connection with our incurrence of indebtedness.

Following the Spin-Off, we will also face additional costs and demands on management's time associated with being an independent, publicly traded company, including costs and demands related to corporate governance, investor and public relations and public reporting. For additional information about our past financial performance and the basis of presentation of our Combined Financial Statements, see "Unaudited Pro Forma Condensed Combined Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical Combined Financial Statements and the Notes thereto included elsewhere in this Information Statement.

We expect to incur new indebtedness concurrently with or prior to the Distribution, and the degree to which we will be leveraged following completion of the Distribution could adversely affect our business, financial condition and results of operations.

In connection with the Spin-Off, we intend to incur substantial indebtedness in an aggregate principal amount of approximately \$ million, of which \$ million of the net proceeds will be transferred to IBM or a subsidiary of IBM substantially concurrently with the consummation of the Spin-Off. We have historically relied upon IBM to fund our working capital requirements and other cash requirements. After the Distribution, we will not be able to rely on the earnings, assets or cash flow of IBM, and IBM will not provide funds to finance our working capital or other cash requirements. As a result, after the Distribution, we will be responsible for servicing our own debt and obtaining and maintaining sufficient working capital and other funds to satisfy our cash requirements. After the Spin-Off, our access to and cost of debt financing will be different from the historical access to and cost of debt financing under IBM. Differences in access to and cost of debt financing may result in differences in the interest rate charged to us on financings, as well as the amount of indebtedness, types of financing structures and debt markets that may be available to us. Our ability to make payments on and to refinance our indebtedness, including the debt incurred in connection with the Spin-Off, as well as any future debt that we may incur, will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

A lowering or withdrawal of the ratings, outlook or watch assigned to our new debt securities by rating agencies may increase our future borrowing costs, reduce our access to capital and adversely impact our financial performance.

Our indebtedness is expected to have an investment grade rating, and any rating, outlook or watch assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, current or future circumstances relating to the basis of the rating, outlook or watch such as adverse changes to our business, so warrant. Any future lowering of our ratings, outlook or watch likely would make it more difficult or more expensive for us to obtain additional debt financing. Moreover, a reduction in our rating to below investment grade could cause certain customers to reduce or cease to do business with us, which would adversely impact our financial performance.

Following the Spin-Off, certain of our employees may have actual or potential conflicts of interest because of their financial interests in IBM.

Because of their current or former positions with IBM, certain of our expected executive officers own equity interests in both us and IBM. Continuing ownership of IBM shares and equity awards could create, or appear to create, potential conflicts of interest if we and IBM face decisions that could have implications for both us and IBM. For example, potential conflicts of interest could arise in connection with the resolution of any dispute between us and IBM regarding the terms of the agreements governing the separation and distribution and our relationship with IBM following the separation and distribution. Potential conflicts of interest may also arise out of any commercial arrangements that we or IBM may enter into in the future.

We or IBM may fail to perform under various transaction agreements that will be executed as part of the separation.

In connection with the separation, and prior to the Distribution, we and IBM will enter into various transaction agreements related to the Spin-Off. All of these agreements will also govern our relationship with IBM following the Spin-Off. We will rely on IBM to satisfy its performance obligations under these agreements. If we or IBM are unable to satisfy our or its respective obligations under these agreements, including indemnification obligations, our business, results of operations and financial condition could be adversely affected. See “Certain Relationships and Related Party Transactions.”

Certain non-U.S. entities or assets that are part of our separation from IBM may not be transferred to us prior to the Distribution or at all.

Certain non-U.S. entities and assets that are part of our separation from IBM may not be transferred prior to the Distribution because the entities or assets, as applicable, are subject to foreign government or third party approvals that we may not receive prior to the Distribution. Such approvals may include, but are not limited to, approvals to merge or demerge, to form new legal entities (including obtaining required registrations and/or licenses or permits) and to transfer assets and/or liabilities. It is currently anticipated that most material transfers will occur without delays beyond the Distribution Date, but we cannot offer any assurance that such transfers will ultimately occur or not be delayed for an extended period of time. To the extent such transfers do not occur prior to the Distribution, under the Separation and Distribution Agreement, the economic consequences of owning such assets and/or entities will, to the extent reasonably possible and permitted by applicable law, be provided to us. In the event such transfers do not occur or are significantly delayed because we do not receive the required approvals, we may not realize all of the anticipated benefits of our separation from IBM and we may be dependent on IBM for transition services for a longer period of time than would otherwise be the case.

Risks Relating to Our Common Stock and the Securities Market

No market for our common stock currently exists and an active trading market may not develop or be sustained after the Spin-Off. Following the Spin-Off, our stock price may fluctuate significantly, and there can be no assurance that the combined trading prices of our and IBM’s common stock would exceed the trading price of IBM common stock absent the Spin-Off.

There is currently no public market for our common stock. In connection with the Spin-Off, we intend to list our common stock on . We anticipate that before the Distribution Date, trading of shares of our common stock will begin on a “when-issued” basis and this trading will continue through the Distribution Date. However, an active trading market for our common stock may not develop as a result of the Spin-Off or may not be sustained in the future. The lack of an active market may make it more difficult for stockholders to sell our shares and could lead to our share price being depressed or volatile.

Although the Spin-Off is expected to increase the aggregate trading price of the common stock of IBM and Kyndryl above what the trading price of IBM common stock would have had if it had continued to represent an interest in both the businesses, we cannot predict the prices at which our common stock may trade after the Spin-Off or whether the combined trading prices of a share of our common stock and a share of IBM’s common stock will be less than, equal to or greater than the trading price of a share of IBM common stock prior to the Spin-Off. The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control.

Furthermore, our business profile and market capitalization may not fit the investment objectives of some IBM stockholders and, as a result, these IBM stockholders may sell their shares of our common stock after the Distribution. See “— Substantial sales of our common stock may occur in connection with the Spin-Off, or in the future, either of which could cause our stock price to decline.” Low trading volume for our stock, which may occur if an active trading market does not develop, among other reasons, would amplify the effect of the above factors on our stock price volatility. Should the market price of our shares drop significantly, stockholders may institute securities class action lawsuits against us. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources.

Substantial sales of our common stock may occur in connection with the Spin-Off, or in the future, either of which could cause our stock price to decline.

IBM stockholders receiving shares of our common stock in the Distribution generally may sell those shares immediately in the public market. It is likely that some IBM stockholders, including some of its larger stockholders, will sell their shares of our common stock received in the Distribution if, for reasons such as our business profile or market capitalization as an independent company, we do not fit their investment objectives, or, in the case of index funds, we are not a participant in the index in which they are investing. The sales of significant amounts of our common stock or the perception in the market that such sales might occur may decrease the market price of our common stock.

We cannot guarantee the timing, amount or payment of dividends on our common stock.

Following the Spin-Off, the initial combined dividend level of Kyndryl and IBM is expected to be no less than IBM's pre-spin dividend per share. The timing, declaration, amount and payment of future dividends to stockholders will fall within the discretion of our Board. The Board's decisions regarding the payment of dividends will depend on consideration of many factors, such as our financial condition, earnings, sufficiency of distributable reserves, opportunities to retain future earnings for use in the operation of our business and to fund future growth, capital requirements, covenants associated with certain debt service obligations, legal requirements, regulatory constraints and other factors that the Board deems relevant. For more information, see "Dividend Policy." There can be no assurance that we will pay our anticipated dividend in the same amount, frequency or at all in the future.

Holders of our common stock may be diluted due to future equity issuances.

In the future, holders of our common stock may be diluted because of equity issuances for acquisitions, capital market transactions or otherwise, including any equity awards that we will grant to our directors, officers and employees. Our employees will have stock-based awards that correspond to shares of our common stock after the distribution as a result of the conversion of and/or adjustments to their IBM stock-based awards. Such awards will have a dilutive effect on our earnings per share, which could adversely affect the market price of our common stock. We also plan to issue additional stock-based awards, including annual awards, new hire awards and periodic retention awards, as applicable, to our directors, officers and other employees under our employee benefits plans as part of our ongoing equity compensation program.

The rights associated with our common stock will differ from the rights associated with IBM common stock.

Upon completion of the Distribution, the rights of IBM stockholders who become our stockholders will be governed by our Amended and Restated Certificate of Incorporation and by Delaware law. The rights associated with IBM shares are different from the rights associated with our shares. In addition, the rights of IBM stockholders are governed by New York law, while the rights of our stockholders will be governed by Delaware law. Material differences between the rights of stockholders of IBM and the rights of our stockholders include differences with respect to, among other things, anti-takeover measures. See "Description of Our Capital Stock — Certain Provisions of Delaware Law, Our Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws" for more information.

Certain provisions in our Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws and Delaware law may discourage takeovers and limit the power of our stockholders.

Several provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By-Laws and Delaware law may discourage, delay or prevent a merger or acquisition. These include, among others, provisions that (i) provide for staggered terms for directors on our Board for a period following the Spin-Off; (ii) establish advance notice requirements for stockholder nominations and proposals; (iii) provide for the removal of directors only for cause during the time the Board is classified; (iv) limit the ability of stockholders to call special meetings or act by written consent; and (v) provide the Board the right to issue shares of preferred stock without stockholder approval. In addition, we are subject to Section 203 of the Delaware General Corporation Law ("**DGCL**"), which could have the effect of delaying or preventing a change of control that you may favor. See "Description of our Capital Stock" for more information.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

These and other provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By-Laws and Delaware law may discourage, delay or prevent certain types of transactions involving an actual or a threatened acquisition or change in control of Kyndryl, including unsolicited takeover attempts, even though the transaction may offer our stockholders the opportunity to sell their shares of our common stock at a price above the prevailing market price. Our Board believes these provisions will protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with the Board and by providing the Board with more time to assess any acquisition proposal. These provisions will apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that the Board determines is not in our and our stockholders' best interests. See "Description of Our Capital Stock" for more information.

Our Amended and Restated Certificate of Incorporation will provide that certain courts in the State of Delaware or the federal district courts of the United States will be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our Amended and Restated Certificate of Incorporation will provide, in all cases to the fullest extent permitted by law, unless we consent in writing to the selection of an alternative forum, the Court of Chancery located within the State of Delaware will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of us, any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee or stockholder of Kyndryl to us or our stockholders, any action asserting a claim arising pursuant to the DGCL or as to which the DGCL confers jurisdiction on the Court of Chancery located in the State of Delaware or any action asserting a claim governed by the internal affairs doctrine or any other action asserting an "internal corporate claim" as that term is defined in Section 115 of the DGCL, or any action asserting a claim arising under the DGCL, our Amended and Restated Certificate of Incorporation or our Amended and Restated By-Laws. However, if the Court of Chancery within the State of Delaware does not have jurisdiction, the action may be brought in the United States District Court for the District of Delaware. The exclusive forum provision will provide that it will not apply to claims arising under the Securities Act, the Exchange Act or other federal securities laws for which there is exclusive federal or concurrent federal and state jurisdiction. Unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act.

Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock will be deemed to have notice of and, to the fullest extent permitted by law, to have consented to the provisions of our Amended and Restated Certificate of Incorporation described above. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, other employees or stockholders, which may discourage such lawsuits against us and our directors, officers, other employees or stockholders. However, the enforceability of similar forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings. If a court were to find the exclusive choice of forum provision contained in our Amended and Restated Certificate of Incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Information Statement may constitute “forward-looking statements” that involve risks and uncertainties. Forward-looking statements are based on our current assumptions regarding future business and financial performance. These statements by their nature address matters that are uncertain to different degrees. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Words such as “anticipates,” “believes,” “expects,” “estimates,” “intends,” “plans,” “projects,” and similar expressions, may identify such forward-looking statements. Any forward-looking statement in this Information Statement speaks only as of the date on which it is made. Although we believe that the forward-looking statements contained in this Information Statement are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in such forward-looking statements, including but not limited to:

- the failure to attract new customers, retain existing customers or make sales of additional services to customers;
- technological developments and the speed by which we respond to them;
- the failure to meet growth and productivity objectives;
- competition in the markets in which we operate;
- our relationship with critical suppliers and partners;
- our ability to attract and retain qualified personnel and other skilled employees;
- local economic, political, health and other conditions due to our global presence;
- a downturn in the economic environment and customer spending budgets;
- damage to our reputation;
- the failure to accurately estimate the cost of services and timeline for completion of contracts;
- service delivery issues;
- the risks from acquisitions, alliances and dispositions;
- the additional requirements or approvals needed for business with government customers;
- the failure to protect our intellectual property or allegations that we have infringed the intellectual property of others;
- cybersecurity and privacy considerations;
- tax matters;
- legal proceedings and investigatory risks;
- environmental matters;
- the impact of the commercial and credit environment on our access capital;
- changes in market liquidity conditions and customer credit risk on receivables;
- a lowering or withdrawal of our credit ratings;
- the impact by our pension plans;
- exposure to currency risk; and
- certain factors discussed elsewhere in this Information Statement.

These and other factors are more fully discussed in the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections and elsewhere in this Information Statement. Those cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this Information Statement. Except as required by law, we assume no obligation to update or revise any forward-looking statements.

THE SPIN-OFF

Background

On October 8, 2020, IBM announced that it intended to separate its Managed Infrastructure Services unit from its Hybrid Cloud platform and AI capabilities. To effect the separation, IBM is undertaking the Reorganization Transactions described under “Certain Relationships and Related Party Transactions — Agreements with IBM — Separation and Distribution Agreement” and, following the Reorganization Transactions, will distribute all of its equity interest in us, consisting of all of the outstanding shares of our common stock, to holders of IBM’s common stock on a pro rata basis. On _____, 2021, the IBM Board approved the Distribution on the basis of _____ shares of our common stock for every _____ shares of IBM common stock held as of the close of business on the record date of _____, 2021.

On _____, 2021, the Distribution Date, each IBM stockholder will receive _____ shares of our common stock for every _____ shares of IBM common stock held at close of business on the record date. Following the Spin-Off, IBM will not own any equity interest in us, and we will operate independently from IBM. No approval of IBM’s stockholders is required in connection with the Spin-Off, and IBM’s stockholders will not have any appraisal rights in connection with the Spin-Off.

Completion of the Spin-Off is subject to the satisfaction, or the IBM Board’s waiver, to the extent permitted by law, of a number of conditions. In addition, IBM may at any time until the Distribution decide to abandon the Distribution or modify or change the terms of the Distribution. For a more detailed discussion, see “— Conditions to the Spin-Off.”

Reasons for the Spin-Off

The IBM Board has reviewed various factors, including the company’s portfolio and capital allocation options with the goal of enhancing long-term stockholder value and determined that the Spin-Off is in the best interests of IBM and its stockholders. The potential benefits considered by the IBM Board in making the determination to consummate the Spin-Off include the following:

- **Greater Focus and Enhanced Operational Agility:** The Spin-Off will permit both us and IBM and their management teams to more effectively focus on pursuing their own distinct operating priorities and strategies. IBM will focus on its open hybrid cloud platform and AI capabilities, and we will have greater agility to design, run and modernize the technology environments of some of the world’s most important organizations. This will enable each company to better serve and adapt faster to clients’ changing needs.
- **Strong Financial Profile to Support Growth:** The Spin-Off will enable each business to be positioned as a global leader in its industry with expected investment grade credit ratings and strong financial characteristics to independently drive growth and investment to better address specific market dynamics and target innovation.
- **Value Creation:** The Spin-Off is expected to increase the aggregate trading price of the stock of IBM and Kyndryl above the trading price that the stock of IBM would have had if it had continued to represent an interest in both the businesses, so as to: (i) allow each company to use its stock to pursue and achieve strategic objectives including evaluating and effectuating acquisitions, and (ii) increase the long-term attractiveness of equity compensation programs in a significantly more efficient and effective manner with significantly less dilution to existing stockholders.
- **Alignment of Incentives with Performance:** The Spin-Off will enable each company to create incentives for its management and employees that align more closely with business performance and the interests of their respective stockholders, which is also expected to help each company attract, retain and motivate highly qualified personnel.
- **Broadening of Investor Base:** The Spin-Off allows each company to articulate a clear investment proposition and tailored capital allocation policy to attract a long-term investor base best suited to its business needs.

The IBM Board of Directors also considered some factors that may be adverse to us, including any one-time costs and dissynergies associated with separation, and the possibility of disruptions to the business as

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

a result of the Spin-Off. Notwithstanding these costs and risks, IBM determined that the Spin-Off provided the best opportunity to achieve the above benefits and enhance long-term stockholder value. Please refer to the “Risk Factors — Risks Relating to the Spin-Off” elsewhere in this Information Statement for additional considerations.

When and How You Will Receive Our Shares

IBM will distribute to its stockholders, as a pro rata dividend, _____ shares of our common stock for every _____ shares of IBM common stock outstanding as of _____, 2021, the Record Date of the Distribution.

Prior to the Distribution, IBM will deliver all of the issued and outstanding shares of our common stock to the distribution agent. _____ will serve as distribution agent in connection with the Distribution and as transfer agent and registrar for our common stock.

If you own IBM common stock as of the close of business on _____, 2021, the shares of our common stock that you are entitled to receive in the Distribution will be issued to your account as follows:

- **Registered stockholders.** If you own your shares of IBM common stock directly through IBM’s transfer agent, you are a registered stockholder. In this case, the distribution agent will credit the whole shares of our common stock you receive in the Distribution by way of direct registration in book-entry form to a new account with our transfer agent. Registration in book-entry form refers to a method of recording share ownership where no physical stock certificates are issued to stockholders, as is the case in the Distribution. You will be able to access information regarding your book-entry account for our shares at _____ or by calling _____.

Commencing on or shortly after the Distribution Date, the distribution agent will mail to you an account statement that indicates the number of whole shares of our common stock that have been registered in book-entry form in your name. We expect it will take the distribution agent up to two weeks after the Distribution Date to complete the distribution of the shares of our common stock and mail statements of holding to all registered stockholders.

- **“Street name” or beneficial stockholders.** If you own your shares of IBM common stock beneficially through a bank, broker or other nominee, the bank, broker or other nominee holds the shares in “street name” and records your ownership on its books. In this case, your bank, broker or other nominee will credit your account with the whole shares of our common stock that you receive in the Distribution on or shortly after the Distribution Date. We encourage you to contact your bank, broker or other nominee if you have any questions concerning the mechanics of having shares held in “street name.”

If you sell any of your shares of IBM common stock on or before the Distribution Date, the buyer of those shares may in some circumstances be entitled to receive the shares of our common stock to be distributed in respect of the IBM shares you sold. See “— Trading Prior to the Distribution Date” for more information.

We are not asking IBM stockholders to take any action in connection with the Spin-Off. We are not asking you for a proxy and request that you not send us a proxy. We are also not asking you to make any payment or surrender or exchange any of your shares of IBM common stock for shares of our common stock. The number of outstanding shares of IBM common stock will not change as a result of the Spin-Off.

Number of Shares You Will Receive

On the Distribution Date, you will be entitled to receive _____ shares of our common stock for every _____ shares of IBM common stock that you hold on the record date.

Treatment of Fractional Shares

The distribution agent will not distribute any fractional shares of our common stock in connection with the Spin-Off. Instead, the distribution agent will aggregate all fractional shares into whole shares and sell the whole shares in the open market at prevailing market prices on behalf of IBM stockholders entitled

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

to receive a fractional share. The distribution agent will then distribute the aggregate cash proceeds of the sales, net of brokerage fees, transfer taxes and other costs, pro rata to these holders (net of any required withholding for taxes applicable to each holder). We anticipate that the distribution agent will make these sales in the “when-issued” market, and “when-issued” trades will generally settle within two trading days following the Distribution Date. See “— Trading Prior to the Distribution Date” for additional information regarding “when-issued” trading. The distribution agent will, in its sole discretion, without any influence by IBM or us, determine when, how, through which broker-dealer and at what price to sell the whole shares. The distribution agent is not, and any broker-dealer used by the distribution agent will not be, an affiliate of either IBM or us.

The distribution agent will send to each registered holder of IBM common stock entitled to a fractional share a check in the cash amount deliverable in lieu of that holder’s fractional share as soon as practicable following the Distribution Date. We expect the distribution agent to take about two weeks after the Distribution Date to complete the distribution of cash in lieu of fractional shares to IBM stockholders. If you hold your shares through a bank, broker or other nominee, your bank, broker or nominee will receive, on your behalf, your pro rata share of the aggregate net cash proceeds of the sales. No interest will be paid on any cash you receive in lieu of a fractional share. The cash you receive in lieu of a fractional share will generally be taxable to you for U.S. federal income tax purposes. See “Material U.S. Federal Income Tax Consequences of the Spin-Off” for more information.

Results of the Spin-Off

After the Spin-Off, we will be an independent, publicly traded company. Immediately following the Spin-Off, we expect to have approximately _____ shares of our common stock outstanding, based on the number of IBM stockholders and shares of IBM common stock outstanding on _____, 2021. The actual number of shares of our common stock IBM will distribute in the Spin-Off will depend on the actual number of shares of IBM common stock outstanding on the Record Date, which will reflect any issuance of new shares, vesting of equity awards or exercises of outstanding options pursuant to IBM’s equity plans, and any repurchase of IBM shares by IBM under its common stock repurchase program, on or prior to the Record Date. Shares of IBM common stock held by IBM as treasury shares will not be considered outstanding for purposes of, and will not be entitled to participate in, the Distribution. The Spin-Off will not affect the number of outstanding shares of IBM common stock or any rights of IBM stockholders. However, following the Distribution, the equity value of IBM will no longer reflect the value of the Business. Although IBM believes that our separation from IBM offers its stockholders the greatest long-term value, there can be no assurance that the combined trading prices of the IBM common stock and our common stock will equal or exceed what the trading price of IBM common stock would have been in absence of the Spin-Off.

Before our separation from IBM, we intend to enter into the Separation and Distribution Agreement and several other agreements with IBM related to the Spin-Off. These agreements will govern the relationship between us and IBM up to and after completion of the Spin-Off and allocate between us and IBM various assets, liabilities, rights and obligations, including employee benefits, environmental, intellectual property and tax-related assets and liabilities. We describe these arrangements in greater detail under “Certain Relationships And Related Party Transactions — Agreements with IBM.”

Listing and Trading of Our Common Stock

As of the date of this Information Statement, we are a wholly owned subsidiary of IBM. Accordingly, no public market for our common stock currently exists, although a “when-issued” market in our common stock may develop prior to the Distribution. See “— Trading Prior to the Distribution Date” below for an explanation of a “when-issued” market. We intend to apply to list our shares of common stock on the _____ under the symbol “_____.” Following the Spin-Off, IBM common stock will continue to trade on the _____ under the symbol “IBM.”

Although IBM believes that our separation from IBM offers its stockholders the greatest long-term value, neither we nor IBM can assure you as to the trading price of IBM common stock or our common stock after the Spin-Off, or as to whether the combined trading prices of our common stock and the IBM

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

common stock after the Spin-Off will equal or exceed the trading prices of IBM common stock prior to the Spin-Off. The trading price of our common stock may fluctuate significantly following the Spin-Off.

The shares of our common stock distributed to IBM stockholders will be freely transferable, except for shares received by individuals who are our affiliates. Individuals who may be considered our affiliates after the Spin-Off include individuals who control, are controlled by or are under common control with us, as those terms generally are interpreted for federal securities law purposes. These individuals may include some or all of our directors and executive officers. Individuals who are our affiliates will be permitted to sell their shares of our common stock only pursuant to an effective registration statement under the Securities Act of 1933, or the “Securities Act,” or an exemption from the registration requirements of the Securities Act, such as those afforded by Section 4(a)(1) of the Securities Act or Rule 144 thereunder.

Trading Prior to the Distribution Date

We expect a “when-issued” market in our common stock to develop as early as one trading day prior to the Record Date for the Distribution and continue up to and including the Distribution Date. “When-issued” trading refers to a sale or purchase made conditionally on or before the Distribution Date because the securities of the spun-off entity have not yet been distributed. If you own shares of IBM common stock at the close of business on the Record Date, you will be entitled to receive shares of our common stock in the Distribution. You may trade this entitlement to receive shares of our common stock, without the shares of IBM common stock you own, on the “when-issued” market. We expect “when-issued” trades of our common stock to settle within two trading days after the Distribution Date. On the first trading day following the Distribution Date, we expect that “when-issued” trading of our common stock will end and “regular-way” trading will begin.

We also anticipate that, as early as one trading day prior to the Record Date and continuing up to and including the Distribution Date, there will be two markets in IBM common stock: a “regular-way” market and an “ex-distribution” market. Shares of IBM common stock that trade on the regular-way market will trade with an entitlement to receive shares of our common stock in the Distribution. Shares that trade on the ex-distribution market will trade without an entitlement to receive shares of our common stock in the Distribution. Therefore, if you sell shares of IBM common stock in the regular-way market up to and including the Distribution Date, you will be selling your right to receive shares of our common stock in the Distribution. However, if you own shares of IBM common stock at the close of business on the Record Date and sell those shares on the ex-distribution market up to and including the Distribution Date, you will still receive the shares of our common stock that you would otherwise be entitled to receive in the Distribution.

If “when-issued” trading occurs, the listing for our common stock is expected to be under a trading symbol different from our regular-way trading symbol. We will announce our “when-issued” trading symbol when and if it becomes available. If the Spin-Off does not occur, all “when-issued” trading will be null and void.

Conditions to the Spin-Off

We expect that the Spin-Off will be effective on the Distribution Date, provided that the following conditions shall have been satisfied or waived by IBM:

- the IBM Board shall have approved the Distribution and not withdrawn such approval, and shall have declared the dividend of our common stock to IBM stockholders;
- the Separation and Distribution Agreement, as well as the ancillary agreements contemplated by the Separation and Distribution Agreement, shall have been executed by each party to those agreements;
- the Securities and Exchange Commission (the “**SEC**”) shall have declared effective our Registration Statement on Form 10, of which this Information Statement is a part, under the Exchange Act, and no stop order suspending the effectiveness of the Registration Statement shall be in effect and no proceedings for that purpose shall be pending before or threatened by the SEC;
- our common stock shall have been accepted for listing on a national securities exchange approved by IBM, subject to official notice of issuance;

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

- IBM shall have received the written opinion of Paul, Weiss, Rifkind, Wharton & Garrison LLP, which shall remain in full force and effect, regarding the intended treatment of the Distribution under the Code;
- the Reorganization Transactions shall have been completed (other than those steps that are expressly contemplated to occur at or after the Distribution);
- no order, injunction or decree issued by any governmental authority of competent jurisdiction or other legal restraint or prohibition preventing consummation of the Distribution shall be in effect, and no other event outside the control of IBM shall have occurred or failed to occur that prevents the consummation of the Distribution;
- no other events or developments shall have occurred prior to the Distribution that, in the judgment of the IBM Board, would result in the Distribution having a material adverse effect on IBM or its stockholders;
- prior to the Distribution Date, the Notice of Internet Availability of this Information Statement or this Information Statement shall have been mailed to the holders of IBM common stock as of the Record Date; and
- certain other conditions set forth in the Separation and Distribution Agreement.

Any of the above conditions may be waived by the IBM Board to the extent such waiver is permitted by law. If the IBM Board waives any condition prior to the effectiveness of the Registration Statement on Form 10, of which this Information Statement forms a part, and the result of such waiver is material to IBM stockholders, we will file an amendment to the Registration Statement on Form 10, of which this Information Statement forms a part, to revise the disclosure in the Information Statement accordingly. In the event that IBM waives a condition after this Information Statement becomes effective and such waiver is material to IBM stockholders, we would communicate such change to IBM's stockholders by filing a Form 8-K describing the change.

The fulfillment of the above conditions will not create any obligation on IBM's part to complete the Spin-Off. We are not aware of any material federal, foreign or state regulatory requirements with which we must comply, other than SEC rules and regulations, or any material approvals that we must obtain, other than the approval for listing of our common stock and the SEC's declaration of the effectiveness of the Registration Statement, in connection with the Distribution. IBM may at any time until the Distribution decide to abandon the Distribution or modify or change the terms of the Distribution.

Reasons for Furnishing this Information Statement

We are furnishing this Information Statement solely to provide information to IBM's stockholders who will receive shares of our common stock in the Distribution. You should not construe this Information Statement as an inducement or encouragement to buy, hold or sell any of our securities or any securities of IBM. We believe that the information contained in this Information Statement is accurate as of the date set forth on the cover. Changes to the information contained in this Information Statement may occur after that date, and neither we nor IBM undertakes any obligation to update the information except in the normal course of our and IBM's public disclosure obligations and practices.

DIVIDEND POLICY

Following the separation, the initial combined dividend level of Kyndryl and IBM is expected to be no less than IBM's pre-spin dividend per share. The payment of any dividends in the future, and the timing and amount thereof, is within the discretion of the Board. The Board's decisions regarding the payment of dividends will depend on many factors, such as our financial condition, earnings, capital requirements, debt service obligations, restrictive covenants in our debt, industry practice, legal requirements, regulatory constraints and other factors that the Board deems relevant. Our ability to pay dividends will depend on our ongoing ability to generate cash from operations and on our access to the capital markets. We cannot guarantee that we will pay a dividend in the future or continue to pay any dividends if and when we commence paying dividends.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2021, on a historical basis and on an as adjusted basis to give effect to the Spin-Off and the transactions related to the Spin-Off, as if they occurred on June 30, 2021. You should review the following table in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our historical Combined Financial Statements and the accompanying notes thereto and our unaudited pro forma condensed combined financial statements and the accompanying notes thereto included elsewhere in this Information Statement. For information on how each adjustment in the following table was computed, including a discussion of significant assumptions and estimates used to arrive at such adjustments, refer to the indicated note in the notes accompanying our unaudited pro forma condensed combined financial statements. See “Unaudited Pro Forma Condensed Combined Financial Statements.”

| (\$ in millions) | As of June 30, 2021 | | |
|------------------------------|---------------------|-------|-------------|
| | Historical | Notes | As Adjusted |
| Cash and cash equivalents | \$ | | \$ |
| Capitalization: | | | |
| Indebtedness: | | | |
| Credit facility | \$ | | \$ |
| Notes | | | |
| Total indebtedness | \$ | | \$ |
| Total Parent invested equity | \$ | | \$ |
| Total capitalization | \$ | | \$ |

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Our unaudited pro forma condensed combined financial statements consist of an unaudited Pro Forma Condensed Combined Income Statement for the six months ended June 30, 2021 and the year ended December 31, 2020, and an unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2021.

The following unaudited pro forma condensed combined financial statements give effect to the separation and related adjustments in accordance with Article 11 of the Securities and Exchange Commission's Regulation S-X. In May 2020, the SEC adopted Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses," or the Final Rule. The Final Rule became effective on January 1, 2021 and the unaudited pro forma condensed combined financial information herein is presented in accordance therewith.

The unaudited pro forma condensed combined financial statements presented below have been derived from our historical unaudited Combined Income Statement for the six months ended June 30, 2021, our historical audited Combined Income Statement for the year ended December 31, 2020 and the historical unaudited Combined Balance Sheet at June 30, 2021. The unaudited Pro Forma Condensed Combined Balance Sheet gives effect to the separation and related transactions described below as if they had occurred on June 30, 2021. The pro forma adjustments to the unaudited Pro Forma Condensed Combined Income Statement for the six months ended June 30, 2021 and the year ended December 31, 2020 assume that the separation and related transactions occurred as of January 1, 2020.

The unaudited pro forma condensed combined financial statements have been prepared to include transaction accounting, autonomous entity and other adjustments to reflect the financial condition and results of operations as if we were a separate stand-alone entity.

The net loss of \$[•] million and \$2,194 million for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively, in our unaudited Pro Forma Condensed Combined Income Statements includes \$[•] million and \$881 million for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively, of certain transaction costs resulting from the Spin-Off. These costs include actual expenses incurred through June 30, 2021 included in our historical financial results and estimates for additional costs we expect to incur between June 30, 2021 and eighteen months after the Spin-Off. These costs primarily relate to legal, audit and advisory fees, system implementation costs, business separation and applicable employee retention fees and direct taxes from internal restructuring transactions. Actual transaction costs incurred may differ from the estimates.

The unaudited pro forma condensed combined financial information is for informational purposes only and does not purport to represent what our financial position and results of operations actually would have been had the separation and distribution occurred on the dates indicated, or to project our financial performance for any future period. Our historical combined financial statements have been derived from IBM's historical accounting records and reflect certain allocation of expenses. All of the allocations and estimates in such financial statements are based on assumptions that management believes are reasonable. Our historical combined financial statements do not necessarily represent our financial position or results of operations had we been operated as a standalone company during the periods or at the dates presented. As a result, autonomous entity adjustments have been reflected in the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information reported below should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations," the historical combined financial statements and the corresponding notes included elsewhere in this Information Statement.

Within the financial statements and tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes.

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Pursuant to 17 C.F.R. Section 200.83

**UNAUDITED PRO FORMA CONDENSED COMBINED INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2021**

| (\$ in millions except per share amounts) | Historical | Transaction Accounting Adjustments | Notes | Autonomous Entity Adjustments | Notes | Other Adjustments | Pro Forma |
|---|------------|--|-------|-------------------------------------|-------|----------------------|--------------|
| Revenues | \$ | \$ | | \$ | | \$ | \$ |
| Cost of services | \$ | \$ | | \$ | | \$ | \$ |
| Selling, general and administrative | | | | | | | |
| Workforce rebalancing charges | | | | | | | |
| Research, development and engineering | | | | | | | |
| Interest expense | | | | | | | |
| Other (income) and expense | | | | | | | |
| Total costs and expenses | \$ | \$ | | \$ | | \$ | \$ |
| Income/(loss) before income taxes | \$ | \$ | | \$ | | \$ | \$ |
| Provision for income taxes | \$ | \$ | | \$ | | \$ | \$ |
| Net income/(loss) | \$ | \$ | | \$ | | \$ | \$ |
| Earnings/(loss) per share of common stock | | | | | | | |
| Assuming dilution | | | | | | | \$ |
| Basic | | | | | | | \$ |
| Weighted-average number of common shares outstanding | | | | | | | |
| Assuming dilution | | | | | | | \$ |
| Basic | | | | | | | \$ |

See accompanying notes to the unaudited pro forma condensed combined financial statements.

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Pursuant to 17 C.F.R. Section 200.83

**UNAUDITED PRO FORMA CONDENSED COMBINED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2020**

| (\$ in millions except per share amounts) | Historical | Transaction Accounting Adjustments | Notes | Autonomous Entity Adjustments | Notes | Other Adjustments (Note j) | Pro Forma |
|--|--------------------------|--|-------|-------------------------------------|-------|----------------------------------|--------------------------|
| Revenues | \$19,352 | \$ 785 | a | \$ — | | \$ (543) | \$19,594 |
| Cost of services | \$17,143 | \$ 941 | a,b | \$(111) | f,g | \$ (583) | \$17,389 |
| Selling, general and administrative | 2,893 | 394 | a,b | (442) | g | (2) | 2,843 |
| Workforce rebalancing charges | 918 | 109 | b | — | | — | 1,027 |
| Research, development and engineering | 76 | — | | 10 | g,h | — | 86 |
| Interest expense | 63 | 145 | c | (63) | g | — | 145 |
| Other (income) and expense | 25 | 34 | d | (4) | g | — | 55 |
| Total costs and expenses | <u>\$21,118</u> | <u>\$ 1,623</u> | | <u>\$(610)</u> | | <u>\$ (585)</u> | <u>\$21,546</u> |
| Income/(loss) before income taxes | <u>\$ (1,766)</u> | <u>\$ (838)</u> | | <u>\$ 610</u> | | <u>\$ 42</u> | <u>\$ (1,952)</u> |
| Provision for income taxes | <u>\$ 246</u> | <u>\$ 173</u> | e | <u>\$(190)</u> | i | <u>\$ 13</u> | <u>\$ 243</u> |
| Net income/(loss) (Note k) | <u><u>\$ (2,011)</u></u> | <u><u>\$ (1,011)</u></u> | | <u><u>\$ 799</u></u> | | <u><u>\$ 29</u></u> | <u><u>\$ (2,194)</u></u> |
| Earnings/(loss) per share of common stock (Note l) | | | | | | | |
| Assuming dilution | | | | | | | \$ |
| Basic | | | | | | | \$ |
| Weighted-average number of common shares outstanding (Note l) | | | | | | | |
| Assuming dilution | | | | | | | \$ |
| Basic | | | | | | | \$ |

See accompanying notes to the unaudited pro forma condensed combined financial statements.

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AT JUNE 30, 2021

| (\$ in millions) | Historical | Transaction Accounting Adjustments Notes | Autonomous Entity Adjustments Notes | Other Adjustments Notes | Pro Forma |
|--|------------|---|--|-------------------------------|--------------|
| Assets: | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ | \$ | \$ | \$ | \$ |
| Restricted cash | | | | | |
| Notes and accounts receivable – net | | | | | |
| Deferred costs | | | | | |
| Prepaid expenses and other current assets | | | | | |
| Total current assets | \$ | \$ | \$ | \$ | \$ |
| Property and equipment – net | \$ | \$ | \$ | \$ | \$ |
| Operating right-of-use assets – net | | | | | |
| Deferred costs | | | | | |
| Deferred taxes | | | | | |
| Goodwill | | | | | |
| Intangible assets – net | | | | | |
| Other assets | | | | | |
| Total assets | \$ | \$ | \$ | \$ | \$ |
| Liabilities and equity: | | | | | |
| Current liabilities: | | | | | |
| Short-term debt | \$ | \$ | \$ | \$ | \$ |
| Accounts payable | | | | | |
| Compensation and benefits | | | | | |
| Deferred income | | | | | |
| Operating lease liabilities | | | | | |
| Accrued contract costs | | | | | |
| Other accrued expenses and liabilities | | | | | |
| Total current liabilities | \$ | \$ | \$ | \$ | \$ |
| Long-term debt | \$ | \$ | \$ | \$ | \$ |
| Retirement and nonpension postretirement benefit obligations | | | | | |
| Deferred income | | | | | |
| Operating lease liabilities | | | | | |
| Other liabilities | | | | | |
| Total liabilities | \$ | \$ | \$ | \$ | \$ |
| Commitments and contingencies | | | | | |
| Net Parent investment | \$ | \$ | \$ | \$ | \$ |
| Accumulated other comprehensive income/(loss) | | | | | |
| Total Net Parent investment | | | | | |
| Noncontrolling interests | | | | | |
| Total equity | \$ | \$ | \$ | \$ | \$ |
| Total liabilities and equity | \$ | \$ | \$ | \$ | \$ |

See accompanying notes to the unaudited pro forma condensed combined financial statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Transaction Accounting Adjustments:

- (a) Reflects the net impact of incremental customer contracts and services offerings being transferred to Kyndryl from IBM that were not historically managed by Kyndryl and specific customer contracts being retained by IBM. The pro forma adjustments are summarized below:

| (\$ in millions) | Six Months Ended June 30, 2021 | Year Ended December 31, 2020 |
|-------------------------------------|--------------------------------------|---------------------------------|
| Revenue | \$[•] | \$785 |
| Cost of services | [•] | 740 |
| Selling, general and administrative | [•] | 19 |
| Total pre-tax income | <u>\$[•]</u> | <u>\$ 26</u> |

- (b) All transaction costs incurred in 2020 related to the Spin-Off are included in our historical audited combined financial statements. All transaction costs incurred in the first half of 2021 are included in our historical unaudited combined financial statements. The pro forma adjustments for the year ended December 31, 2020 include estimates for additional charges we expect to incur between June 30, 2021 and twelve months after the Spin-Off and the adjustments for the six months ended June 30, 2021 include estimates for additional charges we expect to incur the first half of the second year after the Spin-Off. These charges primarily relate to legal, audit and advisory fees, system implementation costs, business separation and applicable employee retention fees and related tax charges. These adjustments include estimated non-recurring expenses of \$496 million with no related tax effect due to the valuation allowances discussed in (e) below. Actual amounts may differ from these estimates. The pro forma adjustments are summarized below:

| (\$ in millions) | Six Months Ended June 30, 2021 | Year Ended December 31, 2020 |
|-------------------------------------|--------------------------------------|---------------------------------|
| Cost of services | \$[•] | \$201 |
| Selling, general and administrative | [•] | 375 |
| Workforce rebalancing charges | [•] | 109 |
| Total adjustment | <u>\$[•]</u> | <u>\$684</u> |

- (c) Reflects an estimated interest expense of \$[•] million and \$145 million for the six months ended June 30, 2021 and for the year ended December 31, 2020, respectively. This assumes that we will issue \$5 billion of debt which has been estimated to be at the midpoint of a range of possible indebtedness levels with anticipated market interest rates for such debt at an average of 2.9 percent. Interest expense was calculated assuming constant debt levels throughout the periods. A 0.125 percent change to the annual interest rate would change interest expense by approximately \$[•] million and \$6 million for the six months ended June 30, 2021 and for the year ended December 31, 2020, respectively. The value and terms of such indebtedness are under continuing strategic review, which will be finalized prior to the Spin-Off.
- (d) Reflects additional retirement and nonpension postretirement benefit plan assets and obligations that will be transferred to Kyndryl prior to completion of the Spin-Off including prepaid pension assets of \$[•] million, current liabilities of \$[•] million and net plan liabilities of \$[•] million. The assets and obligations associated with such plans resulted in recognizing accumulated other comprehensive loss of \$[•] million, net of tax at June 30, 2021 and an adjustment to other (income) and expense associated with the plan of \$[•] million and \$34 million for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively. These additional plans are excluded from our historical Combined Balance Sheets as Kyndryl was not the plan sponsor for the related benefit plans. Certain benefit plan expenses associated with these additional plans are included in our historical Combined Income Statements.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

- (e) Reflects \$[•] million and \$173 million for the six months ended June 30, 2021 and for the year ended December 31, 2020, respectively, of the income tax effects of pro forma adjustments, inclusive of Kyndryl's anticipated transfer pricing policies. This adjustment was determined by applying the respective statutory tax rates to pre-tax pro forma adjustments in jurisdictions where valuation allowances were not required. The amount for the year ended December 31, 2020 also includes \$175 million of non-recurring tax impacts of internal restructuring transactions which will be completed prior to the Spin-Off. These internal restructuring transactions will include taxable and non-taxable transfers to establish the Kyndryl legal entity structure which will ultimately be separated from IBM. The tax impact of these transactions is based on estimated amounts since the valuation of assets and liabilities has not been completed and hence subject to change. Due to the complexities involved, the tax impact could increase or decrease materially. Kyndryl's post-separation income taxes will be impacted by many factors, including the profitability in local jurisdictions and the legal entity structure implemented subsequent to separation, and may be materially different from the pro forma results.

Autonomous Entity Adjustments:

- (f) Reflects the effect of agreements that Kyndryl and IBM have entered into or will enter into prior to the Spin-Off. The net reduction to cost of \$[•] million and \$80 million for the six months ended June 30, 2021 and for the year ended December 31, 2020, respectively, reflects the impacts of the new commercial pricing applied to historical purchases of goods and services from IBM.
- (g) As an independent, separate, public company following the Spin-Off, we expect to incur certain expenses including accounting, auditing, communications, tax, legal and ethics and compliance program administration, employee benefits, human resources, information technology, insurance, investor relations, risk management, treasury, other shared facilities and other general and administrative functions; some of which will be provided by IBM pursuant to the Transition Services Agreement we intend to enter into with IBM. The unaudited pro forma condensed combined financial statements have been adjusted to depict us as an autonomous entity. We expect a reduction of expenses compared to the allocated expenses from IBM included in our historical Combined Income Statements, primarily driven by a reduction of certain indirect costs such as marketing. However, actual expenses that will be incurred could differ materially from these estimates. The pro forma adjustments are summarized below:

| (\$ in millions) | Six Months Ended June 30, 2021 | Year Ended December 31, 2020 |
|---------------------------------------|--------------------------------------|---------------------------------|
| Cost of services | \$[•] | \$ (31) |
| Selling, general and administrative | [•] | (442) |
| Research, development and engineering | [•] | (5) |
| Interest expense | [•] | (63) |
| Other (income) and expense | [•] | (4) |
| Total adjustment | <u>\$[•]</u> | <u>\$(545)</u> |

- (h) Reflects \$[•] million and \$15 million for the six months ended June 30, 2021 and for the year ended December 31, 2020, respectively, of estimated research, development and engineering expense associated with the research master collaboration agreement that Kyndryl and IBM have entered into or will enter into prior to the Spin-Off for future joint research projects between Kyndryl and IBM's Research Division.
- (i) Reflects \$[•] million and (\$190) million for the six months ended June 30, 2021 and for the year ended December 31, 2020, respectively, of the income tax pro forma adjustments. This adjustment was determined by applying the respective statutory tax rates to pre-tax pro forma adjustments in jurisdictions where valuation allowances were not required. Additionally, the tax effects relate to the impacts of Kyndryl's anticipated transfer pricing policies. Kyndryl's post-separation income taxes will be impacted by many factors, including the profitability in local jurisdictions and the legal entity structure implemented subsequent to separation, and may be materially different from the pro forma results.

Other Adjustments:

- (j) Reflects the mutual agreement between IBM and a client of the infrastructure services business to dissolve their joint venture relationship, that was historically managed by us, effective at the date of Spin-Off and does not take into account any anticipated post-spin client contractual relationships with us. The adjustment reflects the removal of the assets and liabilities of this joint venture as of June 30, 2021 that will not be transferred to Kyndryl and the removal of the revenue, cost and expense, including the related income taxes, from this joint venture relationship for the six months ended June 30, 2021 and for the year ended December 31, 2020. Going forward, we expect the client will develop separate, unique contractual relationships with IBM and Kyndryl, directly.

Net Income/(Loss):

- (k) Pro Forma Net Loss of \$[•] million and (\$2,194) million for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively, includes transaction costs resulting from the Spin-Off of \$[•] million and (\$881) million for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively. These costs include actual expenses incurred through June 30, 2021 included in our historical financial results and estimates for additional costs we expect to incur between June 30, 2021 and eighteen months after the Spin-Off. These costs primarily relate to legal, audit and advisory fees, system implementation costs, business separation and applicable employee retention fees and direct taxes from internal restructuring transactions. Actual transaction costs incurred may differ from the estimates.

Earnings (Loss) Per Share:

- (l) Pro forma basic and diluted earnings (loss) per share and pro forma weighted-average basic and diluted shares outstanding for the six months ended June 30, 2021 and for the year ended December 31, 2020 reflect the number of shares of our common stock that are expected to be outstanding upon completion of the Spin-Off.

BUSINESS**Our Company**

We are a leading technology services company and the largest infrastructure services provider in the world, serving as a partner to more than 4,000 customers in over 100 countries. We have a long track record of helping enterprises navigate major technological changes, particularly by enabling our customers to focus on the core aspects of their businesses during these shifts while trusting us with their most critical systems. Today, enterprises are engaged in individual and unique digital transformations to differentiate their businesses and derive value through better customer experiences. However, enterprises often face shortages in critical technical expertise to successfully make this complex change. Our purpose is therefore to design, build, and manage secure and responsive private, public, and multicloud environments to accelerate our customers' digital transformations.

We put the customer at the center of everything we do, every day. We provide engineering talent, operating paradigms, and insights derived from our data around IT patterns. This enables us to deliver advisory, implementation, and managed services at scale across technology infrastructures that allow our customers to de-risk and realize the full value of their digital transformations. We do this while embracing new technologies and solutions, and continually expanding our skills and capabilities, as we help advance the vital systems that power progress for our customers. We are also organized to be fast and focused, in order to respond more quickly to our customers' needs, and our principles have led to a structure that drives accountability and responsibility to the teams that work closely with them and our partners. We deliver transformation and secure cloud services capabilities, insights, and depth of expertise to modernize and manage IT environments based on our customers' unique patterns of transformation at scale. We offer services across domains such as cloud services, core enterprise and zCloud services, applications, data, and artificial intelligence services, digital workplace services, security and resiliency services, and network and edge services as we continue to support our customers through technological change. Our services enable us to modernize and manage cloud and on-premise environments as "one" for our customers, enabling them to scale seamlessly.

To deliver these services, we rely on our team of skilled practitioners, consisting of approximately 90,000 professionals. Given our large and diversified customer base operates in multiple industries and geographies, we utilize a flexible labor and delivery model with a balanced mix of global and local talent as needed to meet customer-specific needs, regulatory requirements, and data protection and labor laws. Our employees leverage their deep engineering expertise and extensive experience operating complex and heterogeneous technology environments to drive service quality, intellectual property development, and our long-term trusted customer relationships.

As described in "— Our Customers," we have many customer relationships that are decades long, as we provide high-quality, mission-critical services that are core to operations with customers that represent the backbones of their respective industries. These customers entrust us to deliver the services they need, and manage their complex environments so that they can achieve their business objectives.

As an independent company, we will be free to partner with a broader ecosystem, including a wide range of hyperscale cloud providers, system integrators, independent software vendors, and technology vendors from startups to market leaders. This enables us to serve our customers with the contemporary technology capabilities that best fit their needs and open new avenues for growth. This is all underpinned by our ability to integrate and operate mission-critical technology at scale using deep engineering expertise and intellectual property.

Our approach has enabled us to reach significant scale, with \$19.4 billion in revenue for the fiscal year ended December 31, 2020. We are focused on driving revenue growth with sustainable margins by extending our leadership in the markets in which we operate while investing in our capabilities, and expanding our high value, next generation services consistent with customer needs.

Our Segments

Our reportable segments correspond to how we organize and manage the business and are aligned to key geographic markets in which Kyndryl operates. Segment results do not include any impacts associated with inter-company transactions between the segments:

- **Americas:** This segment comprises Kyndryl’s operations in North and Latin America, and includes countries such as, but not limited to, the United States, Canada, Brazil, Mexico, Peru, Colombia, Argentina and Chile. For the year ended the December 31, 2020, Americas contributed 38 percent of our revenue and 55 percent of Kyndryl’s gross profit.
- **Europe/Middle East/Africa (EMEA):** This segment comprises Kyndryl’s operations in Europe, the Middle East, and Africa and includes countries such as, but not limited to, Germany, France, the United Kingdom, Italy, Spain, Turkey, Israel, Saudi Arabia, South Africa, and Egypt. For the year ended December 31, 2020, EMEA contributed 38 percent of our revenue and 5 percent of the company’s gross profit.
- **Japan:** This segment comprises Kyndryl’s operations in Japan and does not include any other countries. For the year ended December 31, 2020, Japan contributed 16 percent of our revenue and 29 percent of Kyndryl’s gross profit.
- **Asia Pacific:** This segment comprises Kyndryl’s operations in Australia and Asia, excluding Japan, and includes countries such as, but not limited to India, China, Australia, Singapore, Korea, New Zealand and Thailand. For the year ended December 31, 2020, Asia Pacific contributed 8 percent of our revenue and 12 percent of the company’s gross profit.

From time to time, our geographic markets work together to sell and implement certain contracts. The resulting revenues and costs from these contracts may be apportioned among the participating geographic markets. The economic environment and its effects on the industries served by our geographic markets affect revenues and operating expenses within our geographic markets to differing degrees. Local currency fluctuations also tend to affect our geographic markets differently, depending on the geographic concentrations and locations of their businesses. We present additional segment financial information in note D, “Segments,” to our combined financial statements.

Our Industry and Market Opportunity

We participate in an industry that provides services for customers’ technology environments that power their businesses. These services span areas such as management of mission-critical systems across dedicated data centers and multiple clouds. As customers advance their digital transformations, they are looking for partners that understand their business objectives and unique digital journeys, and have the skills to instrument and engineer the IT environments to enable their transformations. Our long standing position as an informed and trusted partner, with decades-long relationships and leading capabilities, provides us with the knowledge and expertise to best help existing and new customers realize their future.

The market for these services is large and dynamic. We project this market, which is a subset of the total IT services market, to represent a \$415 billion opportunity in 2021, growing 7% annually to \$510 billion in 2024. Growth in this market is driven by services that are aligned to customers’ transformations, and represent an incremental \$75 billion. These transformation services include several high-growth portions of the market that each exceed approximately \$10 billion in opportunity, including public cloud managed services (compounded annual growth of 11% from 2021 to 2024), data services (compounded annual growth of 18% from 2021 to 2024), security services (compounded annual growth of 12% from 2021 to 2024), and intelligent automation services (compounded annual growth of 27% from 2021 to 2024). Managed services for edge environments represents a smaller portion connected to many other opportunities, and itself is expected to experience compounded annual growth above 100% from 2021 to 2024.

Several trends underpin the growth of our market, including:

- **Greater demand for digital transformation services.** Companies continue to digitally transform to deliver better customer experiences and compete more effectively, which drives the need for services to support modernization of IT within the enterprise. The COVID-19 global pandemic has accelerated

this already pervasive trend, as organizations look to further their digital capabilities. IDC estimates that approximately 65% of GDP will be digitized by 2022. Illustrating the growth in digitization, U.S. online retail sales surged by 32% year-over-year in 2020. While customers seek to transform, skills availability often represents a challenge, with lack of skills ranked as one of the top 3 impediments to transformation of the IT environment according to Technology Business Research, Inc.

- **Ongoing migration to the cloud.** Companies continue to migrate workloads to the cloud, adopting new capabilities for flexibility, workload portability, and management. These transitions are often complex, with companies seeking assistance from service providers. Gartner forecasts that by 2025, 85% of large organizations will have engaged external service providers to migrate applications to the cloud, an increase from 43% in 2019. Furthermore, Gartner projects that by 2022, more than 75% of global organizations will be running containerized applications in production (an increase from less than 30% today) and worldwide revenue for container management will double by 2024. The extension of public cloud services to multiple environments in different locations has given rise to distributed cloud and migration of workload to these infrastructures that have a greater fit for purpose.
- **Rapid data growth.** As economies have evolved digitally, significantly increasing data volume, management of this data has become much more complex. IDC estimates that in 2020, enterprises created and captured 64 zettabytes of data. The challenge for many organizations is how to collect, harness and govern this data for insights that yield business results and realize data as a differentiator. In order to leverage advanced capabilities such as artificial intelligence and machine learning to enable their business use cases, enterprises need to address data privacy, compliance, security, multicloud data management and data governance across physical and virtual layers of the IT estate.
- **Increasing need for secure systems.** As technology environments become increasingly complex and online, remote and distributed work environments persist, cybersecurity will remain of paramount importance as threats proliferate. Breaches in security can have severe, lasting financial and reputational consequences on businesses. In response, businesses continue to build out their cybersecurity efforts, using service providers to augment their capabilities. According to PwC's 2021 CEO Survey, one-third of U.S. CEOs plan to increase investments in cybersecurity by double digits, with 47% of CEOs citing cyber threats as sources of extreme concern to growth prospects. Enterprises seek service providers that can deploy the expertise and resources needed to manage their growing cybersecurity needs with an efficient and comprehensive approach. Gartner estimates approximately 80% of organizations currently have 16 or more tools from different vendors in their cybersecurity portfolio, recognize vendor consolidation as an avenue for reduced costs and better security that addresses the complexity in their IT environments, and are, therefore, interested in vendor consolidation strategies.
- **Accelerating pace of technological advancement.** As companies adopt new technologies for improved business performance and innovation, they face a challenge in complexity to integrate these new technologies with their existing IT estates. As a result, the required skills, integration burden, and cost in end-to-end operational management often increases. This drives adoption of new capabilities, such as automation, artificial intelligence, and machine learning to ensure that the IT environment is well designed and orchestrated to effectively realize business objectives.

Our Services

We provide advisory, implementation, and managed services in and across a range of technology domains to help our customers manage and modernize enterprise IT environments in support of their business and transformation objectives. Our services are differentiated based on our expertise and intellectual property, and data around IT patterns across customers in the following domains:

- **Cloud Services:** We design, build, and provide managed services for our customers' multicloud environments. We apply a mix of skilled practitioners, intelligent automation and modern service management principles of Site Reliability Engineering, AIOps, Infrastructure as Code and DevOps. We help enterprises optimize their use of hyperscale cloud providers in a unified environment, seamlessly integrating services delivered by: ISVs, large public cloud providers, internal platforms, and other technologies (e.g., IoT).

- **Core Enterprise & zCloud Services:** We establish and operate modern, dedicated technology infrastructure on behalf of enterprise customers to enable their current and future growth and profitability objectives. We support a range of enterprise infrastructure, including private clouds, mainframe environments, distributed computing, enterprise networks, and storage environments.
- **Application, Data, and Artificial Intelligence Services:** We provide end-to-end enterprise data services, including data transformation, data architecture and management, data governance and compliance, and data migration. We support Chief Digital Officers and CIOs in governing the vast quantities of enterprise data across internal and external sources to drive their digital strategies, transactions, and business objectives, while maintaining security, ethical standards, and compliance with country-specific data protection regulations (e.g., GDPR, HIPAA, and PCI). We provide services to design, build, manage, and automate the IT environments for enterprise applications as they migrate to the cloud. Our services help CIOs and Chief Technology Officers (CTOs) unlock the full value of leading third-party Enterprise Resource Planning systems (e.g., Oracle, SAP) and packaged applications through the use of AI and software-defined technologies.
- **Digital Workplace Services:** Our digital workplace services provide the technology infrastructure, mobility, security, and access solutions to support a global workforce that is constantly evolving. Our services include enterprise mobility solutions that provide users with the ability to work seamlessly across environments and locations.
- **Security & Resiliency Services:** We provide comprehensive enterprise cyber-security services for Chief Information Security Officers and CRO, including: insights, protection, detection, response, and recovery to support the security of our client's hybrid IT estate, data and operations. Concurrently, we provide resiliency services that include a mix of business continuity planning and cloud-based disaster recovery capabilities (composed of experts, digital tools and automation, and failover environments). These services allow our customers to operate without issue or disruption in response to attacks, outages, natural disasters, and geopolitical events.
- **Network Services & Edge:** We provide network and edge services to help customers meet their technological and commercial requirements for connectivity and compute across their digital environments. Our strategy and assessment services help evaluate customers' network needs for their multicloud environments, while our network transformation and managed services allow customers to realize benefits of the latest software-defined network technologies. We deliver these services with a proprietary framework and architecture coupled with proof of concepts to then implement and manage enterprise networks with the right economics.

Our Competitive Strengths

We are a recognized leader in many of the services we provide, as acknowledged by research analysts (e.g., Everest, Forrester, Gartner, and IDC). We are known for our technology integration and modernization expertise — designing, building, and managing complex technology environments. Our worldwide and high-quality service delivery is underpinned by experienced and highly-trained practitioners that bring the best of our capabilities to our customers on a daily basis. Importantly, our culture of customer service excellence — especially in times of crisis, from COVID-19 to tsunamis, floods, cyber-attacks, and power outages — carries on from our heritage through our people. Given our unique capabilities, scale, intellectual property, and engineering talent, we are positioned to partner with enterprises for their future across a range of technologies, use cases, and business strategies to help them maximize the return on their technology investments and digital transformations.

Our competitive strengths stem from our intellectual property and data around IT patterns, our mission-critical expertise, and our broad ecosystem of partners:

- **We are a leader in technology services.** We are the largest provider of IT infrastructure services and are recognized by research analysts (e.g., Gartner, Forrester, IDC, Everest, NelsonHall, and HfS Research) as a leader in key service areas. We possess significant experience in virtually all industries, gained through collaboration with customers across over 30 years designing, building, and managing operating environments for their IT systems. Our highly skilled workforce provides the expertise (e.g., approximately 13,000 Red Hat accreditations) to securely and reliably handle many of the most

complex issues. In conjunction with our delivery capabilities (such as artificial intelligence that augments our people) and scale, we provide mission-critical services to a diversified customer base. We also have unique intellectual property applicable to IT environments, as reflected by our portfolio of approximately 3,000 patents.

- ***We consistently deliver unsurpassed performance and reliability for complex environments.*** Our expert practitioners and talented engineers provide services through modern ways of working, including agile and design thinking. Additionally, our unique intellectual property and industry-leading technology platforms utilize contemporary approaches to IT operations to provide reliable and efficient solutions for each customer’s operating model. These capabilities allow us to execute with secure and compliant operating and delivery models at scale, driving high-quality performance and customer satisfaction. We realize high quality performance across thousands of service-level agreements and consistently achieve world-class customer satisfaction and advocacy.
- ***We deliver insights at scale, supported by unique automation capabilities and application of AI.*** Our ability to deliver superior outcomes for customers is driven by our capacity to leverage our data around IT patterns and insights, derived from multiple technology environments across customer engagements. We apply machine learning, combined with our practitioner expertise to derive unique insights used to service customers, enhance our offerings and to produce our next-generation services, investing to ensure continuous innovation for improved outcomes. For example, we are recognized leaders in the use of automation and operational AI in the delivery of our services, with over 6,000,000 automated actions per month, enabling greater quality and efficiency for us and our customers. Our operational AI approach and set of technologies, along with intellectual property that we apply and continually evolve, are leveraged to develop predictive actions to prevent issues before they arise.
- ***We are a recognized leader in managed services for cloud and on-premise environments and services such as security and resiliency.*** We offer a range of high-value capabilities including cloud services, and security & resiliency services, providing us with a sustainable competitive advantage when helping customers transform their technology environments. Our multicloud management capabilities are differentiated by our ability to deliver an integrated view of our customers’ diverse technology environments and to provide our services and solutions digitally. We offer integrated services between the cloud and on-premise environments.
- ***We offer an integrated ecosystem to help customers adopt and run an increasingly heterogeneous set of technologies.*** As customers pursue multiple cloud-based technology partners, applications, and capabilities, integration is increasingly critical for customers to manage and orchestrate the technology ecosystem required to run their businesses and achieve their broader objectives. We provide holistic services across thousands of diverse technologies, delivering end-to-end integration across public and private / on-premise cloud platforms and other full-stack technology solutions. Following the Spin-Off, we will enhance our ecosystem of partners, including large public cloud providers, application-oriented system integrators, independent software vendors, and other players in the technology stack to provide the best technology and capability for our customers. Our services and ecosystems enable us to offer leading services for all levels of customer environment complexity and integration.

Our Strategies

We will pursue a strategy centered on our ability to build and enrich trusted relationships with customers and technology partners, differentiating through our proven ability to create and deploy scale-derived intellectual property, provide mission-critical expertise across industries, and partner with a broad ecosystem for contemporary capabilities that best suit customers’ needs. We have a strong and long-standing foundation developed by governing and managing complex technology environments, including IBM (e.g., Red Hat and Cloud Paks) and third-party technologies (e.g., VMWare, ServiceNow, and Microsoft). With increased freedom of action, we will extend these capabilities to an even broader ecosystem of technology providers and develop more services that are digitally consumable to expand accessibility to new customers and markets.

We have a long track record of running customers’ technology environments, enabling them to focus on the core aspects of their businesses. Given the nature of the work we do, we have a unique perspective on

the operating paradigms that enable the high-quality technology environments which our customers have come to rely on for their most critical systems. This position enables us to meet customers where they are in their unique digital transformations, work alongside our customers to take them where they want to be, and in turn enable them to realize the full, at-scale value of that journey. Underpinning all of this are our intellectual property, mission-critical expertise across industries, and a broad ecosystem.

We benefit from the long-standing and deep relationship with IBM. We manage the largest installed base of IBM hardware and software products, including some of the most complex deployments. While we will be an independent and distinct entity following the separation, we will continue to work with IBM on an arms-length basis. In addition to any transition services agreements for services that IBM will provide to us as part of the Spin-Off, they will be part of our partner ecosystem from the standpoint of a technology provider, cloud provider, and application services partner. See “Certain Relationships and Related Party Transactions — Agreements with IBM — Other Arrangements.”

As we look to the future, our focus is centered on the following strategic tenets:

- **Scale Insights and Intellectual Property.** We will invest to position ourselves at the forefront of developing and innovating the services and operating paradigms for the evolution and integration of mission critical technology, further expanding our existing intellectual property in differentiated areas. Our depth of experience implementing and operating complex architectures across technology sets has yielded valuable experience and intellectual property that has defined the operating paradigm for much of the technology stack. We have approximately 3,000 patents that relate to various areas of running complex technology environments, including certain patents related to multi-cloud management, orchestration, integrated monitoring, issue triage and resolution, and several other areas that enable quality of service. Our mission-critical expertise across all industries, augmented by our automation platforms that draw on our IP and data, is a key differentiator in managing complex technology environments.
- **Diverse Ecosystem with Freedom of Action.** As an independent entity, we will have the freedom of action to develop a broad ecosystem of strategic partnerships with a wider set of technology and services companies to complement our relationship with IBM. We will invest in an ecosystem of technology providers and corresponding skill-sets that are increasingly relevant as enterprises digitize and transform their business models, building on our existing base of certifications across many market-leading technologies. In parallel, we will extend our operating paradigms and governance and compliance models to this broader set of technologies to integrate and provide end-to-end capabilities for our customers as they digitize and evolve their environments.
- **Digitally Consumable Services Models.** Looking ahead, we see opportunity to further expand in areas where we can better serve customers through consumption models that allow them to experience our services digitally. These models will combine our platforms, our technology governance, and our ecosystem with ease-of-use and scalability, tailored to the needs of specific customer segments such as middle-market enterprises.

To execute these strategies, our operating model will reflect that of a services company, emphasizing customers and resulting in a flatter, faster, and more focused company. We will pursue an investment and co-investment strategy focused on building our team, developing aligned intellectual property and automation, and broadening our ecosystem of partnerships.

Our Customers

Our customer relationships across all industries demonstrate the deep level of trust that we have earned, and the role we play as a partner that provides technical expertise, insight, and intellectual property to solve customer challenges. We are the trusted advisor and partner to more than 4,000 customers, in technology-intensive, and often highly regulated environments, spread across over 100 countries, managing mission-critical technology environments across all industries. Our customers collectively represent:

- Financial Services: over 60% of the top 50 banks’ assets under management
- Telecommunications: approximately 50% of the total industry’s mobile connections worldwide

- Retail: over 50% of the total industry's hypermarket sales
- Automotive: approximately 45% of the total industry's production of passenger vehicles
- Airlines: over 35% of total revenue passenger miles flown

As companies engage in their digital journey, they face a key impediment related to the skills and expertise needed to realize their transformations. This, in part, is brought on by the increasing complexity of enterprise environments, the incorporation of new technologies, and the deployment of different operating models. While many companies have strengthened their technology teams, they have also encountered difficulties in sourcing the breadth of expertise needed for their environments and leveraged service providers to address their needs. Companies will benefit from selecting service providers that have greater insight into their environments and needs, which advantages partners with long-lasting customer relationships.

Through decades of collaboration with customers, we have developed deep relationships as we supported the technology environments that advanced their business agendas. Recent examples include:

Large-scale transformation to cloud: We partnered with a large, European financial institution to help them migrate from a predominantly on-premise, classic infrastructure environment to a cloud-based infrastructure, utilizing both private and public clouds. We provided the expertise and support to navigate this digital transformation while maintaining and improving quality of service as we moved over one thousand applications. We also deployed a new Kubernetes container-based environment and management capabilities to increase workload portability and flexibility. This work enabled the customer's platform to run with increased digital agility and efficiency, embedding strong data security within the new cloud-based infrastructure and providing alignment to the existing infrastructure environment. The customer's transformation has brought business benefits, from new products and services that are brought to market faster, to an increase in sales through online channels.

Modernization of the technology environment: Based on a relationship spanning almost 2 decades, we partnered with a large European bank to help launch a 10-year transformational program to increase operational agility and efficiency by optimizing the customer's critical infrastructure, reducing complexity, migrating to hybrid cloud, and reducing operational costs. We reduced IT infrastructure complexity by redesigning critical infrastructure architecture, including networks, storage, virtualization, and data backup for improved efficiency, enabled 'scalable' hybrid cloud by implementing and updating existing systems to a hybrid cloud solution supported by Red Hat, and transformed legacy IT services by modernizing tools and the operating model for deployment of IT services. The customer will benefit from modern IT infrastructure including cloud and mainframes that supports their core banking services and treasury functions.

Digital transformation across the enterprise: We collaborated with a large material sciences company in North America to support their mission-critical IT infrastructure globally, providing integrated management for environments that include hybrid cloud infrastructure, network, security, and end-user services. As the COVID-19 pandemic impacted the operations of many companies, we worked with our customer to help move more than 40,000 employees to a remote model while maintaining critical operations in production facilities without disruption. Building on our 16-year history of collaboration, we are working to accelerate their digital transformation. We are helping our customer build foundational capabilities for their digital journey, powered by data, analytics, and artificial intelligence and machine learning integrated into core business processes and connected through a flexible and secure network. This will support our customer's ability to fully exploit digital technologies, and realize business benefit.

Digitization for flexibility: Our customer, a large Japanese transportation company, was engaged in a technology-driven transformation to establish a flexible IT environment using hybrid cloud that evolves with changing business needs. Our teams worked together to build an integrated private and public cloud with the same virtualization architecture, and a management capability that unifies operations and evolves with the business. Through our collaboration, we created an integrated infrastructure to meet our customer's current and future needs by modernizing on premise, off premise, and network environment as well as its management platform. We deployed software-defined networks across the environment and automation to realize improved quality and business continuity. Our work helps support our customer's efforts to become one of the most valued and preferred transportation companies in the world.

An important part of our services involve supporting our customers during times of crisis, including global disruptions. For instance, during the COVID-19 pandemic, our business continuity plans mitigated all COVID-driven outages in 2020, providing peace-of-mind to our customers and giving them the confidence to focus on their core businesses. We ensured that our customers had the data and IT services needed to migrate operations to a work-from-home environment. Our response also demonstrated the resilience of our delivery model, as most of our professionals moved to work-from-home without impact to customer service.

Sales and Marketing

Our customer engagement and brand positioning will focus on deepening our existing customer relationships, attracting and winning new customers, and creating an ecosystem built on go-to-market relationships with leading cloud and other technology providers, advisors, and integrators to offer best-in-class advisory, implementation, and managed services tailored to each existing and new customer's environment and requirements.

Customer-Centric Account Approach. Following the Spin-Off, we will deploy dedicated account coverage teams within our global operating structure. The teams will leverage our intellectual capital and tools underpinned by insights and proven practices derived from operating at scale. Senior account leaders will lead the teams and have end-to-end accountability from sale to delivery for managed services customers. They will tailor the full suite of our services to the customers' needs to deliver value and business outcomes across a wide range of technology environments. Account leaders will be supported by dedicated, multi-disciplinary technical sales and delivery teams, as well as by shared services teams, to support an effective and efficient engagement. This new account coverage model will ensure consistent and reliable delivery of services for our existing relationships over the lifetime of current and renewal contracts. In addition, the model will support the potential expansion of existing relationships based on our deep industry perspective and expertise and knowledge of customers' unique needs. Finally, this account-based model will seek to build and expand existing relationships with line of business buyers, as they have become critical decision makers working alongside our customers.

Customer Growth and New Customer Acquisition. In line with our customer-centric approach, we will focus on co-creating and innovating with customers to advance and deepen our relationships. We will leverage our broad base of expertise, capabilities, and partners to prototype, test, and develop innovative solutions across various approaches and technologies. Additionally, we will offer bespoke project capabilities in advisory, implementation, and transformation services to help customers enhance and evolve their technology environments. We will deploy our talent, thought leadership, proven practices, intellectual capital, and partnership ecosystem as part of our project engagements to mature them into longer-tail managed services opportunities. In addition, we will attract and develop new customers across the globe via account-based marketing, insights derived from operating at scale, and direct sales teams with years of sectorspecific experience and proven practices to generate unique insights for customers. As we gain new customers, we will apply our account coverage model to expand our relationships and footprint over time.

Partnership and Alliance Ecosystem. While we will maintain a strategic partnership with IBM, we will also benefit from greater flexibility to enhance and develop strategic relationships with other partners. We will build a set of new routes to market to serve as a multiplier that enables us to expand business with our partner ecosystem. The ecosystem will at least include: public cloud providers, ISVs, technology providers (ranging from established, scaled players to growth-stage start-ups), system integrators, business consulting firms, and business services providers. These relationships will benefit our customers through broader access to best-in-class solutions that are tailored for their unique technology situations and digital journeys. We will have dedicated teams supporting our key alliance partners and will co-create and co-market with them to deliver value to our mutual customers.

Our Competition

We compete in a market for technology services along with many other providers, ranging from small, highly specialized companies that serve a limited number of customers to large, multi-service enterprises with many clients. These service providers include: incumbents that have expanded their offerings to migration and management of cloud-based environments; companies that utilize labor-based models and leverage

talent pools primarily in lower-cost countries that have grown to offer a broad range of services with a worldwide presence; and advisory-focused system integrators specializing in bringing together disparate technology environments so that they function as one. Many of these companies offer a mix of advisory, implementation, and managed services across infrastructure, application, and business processes. Examples include: Atos, DXC, Fujitsu, Infosys, Rackspace, Tata Consultancy Services, and Wipro, among others.

The basis of competition involves multiple factors, with key elements including quality of service, technical skills and capabilities, industry knowledge and experience, financial value, ability to innovate, intellectual property and methods, contracting flexibility, and speed of execution. Long-standing partnerships and knowledge of the customers' technology environment often enable service providers to better address requirements and future needs. Our decades-long collaboration with customers provides us with the insights to realize distinctive performance that supports their digital transformation. We deliver unique value by providing intellectual property derived from insights at scale, deploying mission-critical expertise, and leveraging a broad ecosystem — while building and strengthening partnerships to enhance the customer experience.

We will position ourselves uniquely, leveraging a core strength in governance and management of complex IT infrastructure environments, delivered through a global footprint. Our services support customers' digital transformations, as we help accelerate their journeys by providing instrumented and engineered technology environments. We offer choice with consistency through an operating paradigm and management model built from our experiences with complex technologies. These capabilities uniquely position us as both a leading partner and competitor within the same market.

Intellectual Property

We are committed to developing leading-edge ideas and technologies and see innovation as a source of competitive advantage. We will bring approximately 3,000 patents from IBM that are related to our business model. A key pillar of our strategy is continuing to invest in knowledge and intellectual property to support extending our services to a broader ecosystem of technology providers and customer challenges and solutions. Our decades of experiences working with our customers has generated operational insights, creating intellectual property that we leverage for the benefit of our customers. We will leverage our multicloud management platform and orchestration and intelligence layer intellectual property to provide insights to our customers at scale. We rely on intellectual property protections in the countries in which we operate, along with contractual restrictions, to establish and protect our offerings and services and other applicable rights. In addition, we license third-party software along with other technologies that are used in the provision of or incorporated into some elements of our services. We possess a significant intellectual property portfolio, which we believe is important to our success. However, we believe our business as a whole is not materially dependent on any particular intellectual property right or any particular group of patents, trademarks, copyrights or licenses.

Additionally, we own or have rights to various trademarks, logos, service marks, and trade names that are used in the operation of our business. We also own or have the rights to copyrights that protect the content of our products and other proprietary materials.

Human Capital Resources

Employees

We had approximately 90,000 employees as of March 31, 2021 spanning 63 countries. Approximately 92% of our employees work outside the U.S., with workforce hubs in India, Poland, Brazil, Japan, Czech Republic, and Hungary.

We work alongside the best people advancing the vital systems that power human progress. Our global workforce is highly skilled, reflective of the work we do for our customers' digital transformations and in support of their mission-critical operations. Our industry experts are also always continuously learning. In 2020 alone, we earned more than 140,000 badges through our learning platform in strategic skills, including cloud, AI, analytics, design thinking, quantum and security. At Kyndryl, we are:

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Pursuant to 17 C.F.R. Section 200.83**

- A purpose-led culture, focused on inspiring our dedicated people to advance what’s possible for our customers
- A business where our people are our business. We want empowered employees who keep learning, thriving, and creating
- Inclusive and open. This starts with a diverse and empathetic workforce that listens and learns at every step
- Fostering an environment that supports new ways of working, accelerated career progression, and the chance to work with the most interesting technology systems
- Promoting innovation at every turn — in our open and transparent leadership, in our purpose, and in our shared values built around a commitment to advancing what’s next for ourselves and our customers

Our people are truly at the center of designing, building, and managing the technology environments that the world depends on every day. We will continue to invest in our teams to be at the heart of technological change for our customers.

Talent and Culture

Our business is our people; and our talent strategy revolves around our ability to best serve our customers through ongoing investment in talent and skill development. We attract, develop, and retain talent in a dynamic and competitive environment. We are singularly focused on optimizing the employee experience at Kyndryl through:

- **Attracting:** We create technical careers of the future through increased skill development to meet and exceed new market demands
- **Developing:** We align our people’s goals with our customers, promoting acquisition of critical skills on an individual level, and continuous learning
- **Retaining:** We retain the best talent through increased career mobility/ velocity through internal upskilling and reskilling opportunities and promotions

We are committed to building the technical careers of the future and have made investments in training and skills to ensure our people are relevant, experienced, and technically positioned to serve our customers on their most complex challenges. We continue to expand our certifications and accreditations each year through consistent investment in skill development around emerging technologies and key areas for growth.

We offer market competitive, comprehensive rewards and benefits programs including health benefits, mental health support and Employee Assistance Plans, retirement savings benefits, paid time off, and salary and recognition programs, among others. We will continue to build on strong employee engagement including conducting an annual engagement survey, measuring elements such as workplace experience, inclusion, and pride.

Diversity and Inclusion

Diversity and Inclusion is inherent in our DNA. We will uphold and build upon a strong history of diversity, inclusion and equity. Key diversity and inclusion objectives are:

- Continually drive to achieve a diverse and equitable representation in both leadership positions and the broader workforce
- Aim to eliminate implicit bias and ensure equity in all our employment practices for underrepresented groups
- Drive engaging and inclusive employee experiences
- Exceed Equal Opportunity compliance goals in all countries where we operate, and
- Comply with Equal Opportunity audits

Health, Safety and Well-Being

We have a clear commitment to the health, safety and well-being of our employees. We have an experienced Health and Safety team comprised of medical doctors, nurses, industrial hygiene, safety, and workforce health experts. This team will implement a health and safety management system that ensures compliance with all local health and safety regulations, minimizes workplace health and safety risks, and provides for safe and healthy workplaces so our employees can do their best work.

During the COVID-19 pandemic, our priority continues to be the health and safety of employees, customers, and partners, while supporting our customers' operations. We have a comprehensive, global, pandemic management plan. This includes a robust case management system to manage potential COVID-19 exposures and a comprehensive playbook on workplace health and safety measures that allow our offices to reopen when conditions improve. Our employees are supported with access to our Health and Safety team, education, timely updates and forums to ask questions and raise concerns. Additionally, we will continue to focus on mental health and supporting our employees through different phases of the pandemic.

Properties

As of December 31, 2020 we owned or leased approximately 18 million square feet of space worldwide, a summary of which is provided below. We believe that our existing properties are in good condition and are suitable for the conduct of our business.

| | Americas | | EMEA | | Japan | | Asia Pacific | | Total | |
|--------|---------------------|------------------------|---------------------|------------------------|---------------------|------------------------|---------------------|------------------------|---------------------|------------------------|
| | Number of Locations | Square Feet (millions) | Number of Locations | Square Feet (millions) | Number of Locations | Square Feet (millions) | Number of Locations | Square Feet (millions) | Number of Locations | Square Feet (millions) |
| Total | 77 | 7 | 158 | 7 | 39 | 1 | 62 | 3 | 336 | 18 |
| Leased | 65 | 4 | 152 | 6 | 39 | 1 | 62 | 3 | 318 | 15 |
| Owned | 12 | 3 | 6 | 1 | — | — | — | — | 18 | 4 |

Principal Executive Offices

Our principal executive offices, including our global headquarters, are located at New York, New York.

Legal Proceedings

Refer to note K, "Commitments and Contingencies," to the combined financial statements included elsewhere in this Information Statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the Combined Financial Statements and related Notes thereto and other financial information appearing elsewhere in this Information Statement. This discussion contains forward-looking statements that involve risk, assumptions and uncertainties, such as statements of our plans, objectives, expectations, intentions and forecasts. Our actual results and the timing of selected events could differ materially from those discussed in these forward-looking statements as a result of several factors, including those set forth under the section of this Information Statement titled "Risk Factors" and elsewhere in this Information Statement. You should carefully read the "Risk Factors" to gain an understanding of the important factors that could cause actual results to differ materially from our forward-looking statements. Please also see the section of this Information Statement titled "Cautionary Statement Concerning Forward-Looking Statements."

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help you understand the results of operations and financial condition of the Business for the years ended December 31, 2020, 2019 and 2018.

Business Overview

We are a leading technology services company and the largest infrastructure services provider in the world, serving as a partner to more than 4,000 customers in over 100 countries. We have a long track record of helping enterprises navigate major technological changes, particularly by enabling our customers to focus on the core aspects of their businesses during these shifts while trusting us with their most critical systems. Today, enterprises are engaged in individual and unique digital transformations to differentiate their businesses and derive value through better customer experiences. However, enterprises often face shortages in critical technical expertise to successfully make this complex change. Our purpose is therefore uniquely positioned to design, build, and manage secure and responsive private, public, and multicloud environments to accelerate our customers' digital transformations.

We put the customer at the center of everything we do, every day. We provide engineering talent, operating paradigms, and insights derived from our data around IT patterns. This enables us to deliver advisory, implementation, and managed services at scale across technology infrastructures that allow our customers to de-risk and realize the full value of their digital transformations. We do this while embracing new technologies and solutions, and continually expanding our skills and capabilities, as we help advance the vital systems that power progress for our customers. We are also organized to be fast and focused, in order to respond more quickly to our customers' needs, and our principles have led to a structure that drives accountability and responsibility to the teams that work closely with them and our partners. We deliver transformation and secure cloud services capabilities, insights, and depth of expertise to modernize and manage IT environments based on our customers' unique patterns of transformation at scale. We offer services across domains such as cloud services, core enterprise and zCloud services, applications, data, and artificial intelligence services, digital workplace services, security and resiliency services, and network and edge services as we continue to support our customers through technological change. Our services enable us to modernize and manage cloud and on-premise environments as "one" for our customers, enabling them to scale seamlessly.

To deliver these services, we rely on our team of skilled practitioners, consisting of approximately 90,000 professionals. Given our large and diversified customer base operates in multiple industries and geographies, we utilize a flexible labor and delivery model with a balanced mix of global and local talent as needed to meet customer-specific needs, regulatory requirements, and data protection and labor laws. Our employees leverage their deep engineering expertise and extensive experience operating complex and heterogeneous technology environments to drive service quality, intellectual property development, and our long-term trusted customer relationships.

As described in "Business — Our Customers," we have many customer relationships that are decades long, as we provide high-quality, mission-critical services that are core to operations with customers that represent the backbones of their respective industries. These customers entrust us to deliver the services they need, and manage their complex environments so that they can achieve their business objectives.

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Pursuant to 17 C.F.R. Section 200.83**

As an independent company, we will be free to partner with a broader ecosystem, including a wide range of hyperscale cloud providers, system integrators, independent software vendors, and technology vendors from startups to market leaders. This enables us to serve our customers with the contemporary technology capabilities that best fit their needs and open new avenues for growth. This is all underpinned by our ability to integrate and operate mission-critical technology at scale using deep engineering expertise and intellectual property.

Our approach has enabled us to reach significant scale, with \$19.4 billion in revenue for the fiscal year ended December 31, 2020. We are focused on driving revenue growth with sustainable margins by extending our leadership in the markets in which we operate while investing in our capabilities, and expanding our high value, next generation services consistent with customer needs.

Management Discussion Snapshot

| (\$ in millions) For the year ended December 31: | Yr.-to-Yr. Percent/Margin Change | | | | |
|---|--|----------|----------|-------------|-------------|
| | 2020 | 2019 | 2018 | 2020 – 2019 | 2019 – 2018 |
| Revenue | \$19,352 | \$20,279 | \$21,796 | (4.6)% | (7.0)% |
| Gross profit margin | 11.4% | 12.8% | 11.7% | (1.4)pts. | 1.1pts. |
| Total expense and other (income) | \$ 3,975* | \$ 3,176 | \$ 3,187 | 25.1% | (0.3)% |
| Loss before income taxes | \$ (1,766)* | \$ (579) | \$ (630) | 205.0% | (8.1)% |
| Provision for income taxes | 246 | 364 | 350 | (32.5)% | 4.0% |
| Net loss | \$ (2,011)* | \$ (943) | \$ (980) | 113.3% | (3.7)% |
| Net loss margin | (10.4)%* | (4.7)% | (4.5)% | (5.7)pts. | (0.2)pts. |

* Includes \$918 million of pre-tax charges for workforce rebalancing actions during the year.

| (\$ in millions) At December 31: | 2020 | 2019 | Yr.-to-Yr. Percent Change |
|-------------------------------------|----------|----------|---------------------------------|
| Assets | \$11,205 | \$11,744 | (4.6)% |
| Liabilities | \$ 6,274 | \$ 5,796 | 8.3% |
| Equity | \$ 4,931 | \$ 5,948 | (17.1)% |

Organization of Information

As a result of the allocations and carve out methodologies used to prepare these combined financial statements, the accompanying combined financial statements included throughout this Information Statement may not be indicative of our future performance, do not necessarily include the actual expenses that would have been incurred by us and may not reflect our results of operations, financial position and cash flows had we been a separate, standalone company during the periods presented. For additional information, see “Basis of Presentation.”

Financial Performance Summary

Environmental Dynamics

With the unprecedented COVID-19 pandemic and macroeconomic uncertainty beginning in March 2020, many clients experienced declines in their business volumes, and client priorities shifted to maintaining operational stability, flexibility and preservation of cash. While there was continued demand for offerings that support their digital transformation, clients moved to shorter term duration engagements and prioritized operational expenditures over capital expenditures. These dynamics impacted our performance in 2020.

2020 Financial Performance

In 2020, we reported \$19.4 billion in revenue, a decline of 4.6 percent when compared to the prior year which was driven by declines in the Americas segment. Revenue declined primarily due to a reduction in client volumes within industries heavily impacted by the global pandemic. We ended 2020 with approximately 4,400 customers, as compared to approximately 4,600 customers in the prior year. Gross profit margin of 11.4 percent declined by 1.4 points. Total expense and other income of \$4.0 billion increased 25.1 percent and reflects the impacts of higher workforce rebalancing charges of \$0.8 billion. We took these structural actions to simplify and optimize our operating model. Losses from operations were \$2.0 billion, an increase of \$1.1 billion when compared to the prior year, primarily due to the higher workforce rebalancing charges.

We generated \$0.5 billion in cash from operations in 2020. Total assets of \$11.2 billion decreased by \$0.6 billion compared to the prior year, predominantly driven by declines in notes and accounts receivable of \$0.4 billion. Total liabilities of \$6.3 billion at December 31, 2020 increased by \$0.5 billion from the prior year, primarily as a result of an increase in workforce rebalancing liabilities of \$0.6 billion. Total equity of \$5.0 billion at December 31, 2020 declined by \$1.0 billion from the prior year, primarily driven by losses from operations within the year.

2019 Financial Performance

In 2019, we reported \$20.3 billion in revenue, a decline of 7.0 percent when compared to the prior year, which was driven by declines in the Americas and EMEA segments, and a currency headwind. Like our clients, we prioritized higher value opportunities in 2019. Discrete account and portfolio actions were taken to improve our profitability in the long term even though they had an impact on our 2019 results. We ended 2019 with approximately 4,600 customers, as compared to approximately 5,100 customers in the prior year. The majority of the historical net customer count decline was driven by lower revenue transactional business. Gross profit margin of 12.8 percent improved by 1.1 points, reflecting the benefit from structural actions taken to improve contract profitability. Total expense and other income of \$3.2 billion was flat when compared to the prior year. Losses from operations were \$0.9 billion, consistent with the prior year.

We generated \$1.0 billion in cash from operations in 2019. Total assets of \$11.8 billion increased by \$0.9 billion compared to the prior year, predominantly driven by right-of-use asset increases of \$1.2 billion due to the adoption of the new lease standard. Total liabilities of \$5.8 billion at December 31, 2019 increased by \$1.2 billion from the prior year, primarily as a result of an increase in operating lease liabilities of \$1.2 billion. Total equity of \$6.0 billion at December 31, 2019 declined by \$0.3 billion from the prior year, primarily driven by losses from operations within the year.

Basis of Presentation

Our combined financial statements included throughout this Information Statement have been derived from the consolidated financial statements and accounting records of IBM, as if we had operated on a standalone basis during the periods presented, and were prepared in accordance with U.S. GAAP and pursuant to the rules and regulations of the SEC.

Historically, we were included in IBM's Global Technology Services segment and did not operate as a separate, standalone entity. Accordingly, IBM has reported our financial position and the related results of operations, cash flows and changes in equity in IBM's consolidated financial statements. As the separate legal entities that comprise us were not historically held by a single legal entity, Total Net Parent investment is shown in lieu of shareholder's equity in the combined financial statements included throughout this Information Statement. Intercompany transactions between Kyndryl and IBM are considered to be effectively settled in the combined financial statements at the time the transaction is recorded. The total net effect of the settlement of these intercompany transactions is reflected as Net transfers from Parent in the financing activities section in the Combined Statement of Cash Flows and in the Combined Balance Sheet within Net Parent investment. Net Parent investment represents IBM's interest in the recorded assets of our business and represents the cumulative investment by IBM in us through the dates presented, inclusive of operating results.

The combined financial statements included elsewhere in this Information Statement include the historical basis of assets, liabilities, revenues and expenses of the individual businesses of IBM's historical

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Pursuant to 17 C.F.R. Section 200.83**

managed infrastructure services business, including the joint ventures and partnerships over which we have a controlling financial interest. The combined financial statements included elsewhere in this Information Statement include certain assets and liabilities that are held by IBM that are specifically identifiable or otherwise attributable to us. All of our intracompany transactions between our businesses have been eliminated. All of our significant intercompany transactions between us and IBM have been included in the combined financial statements.

Cash is managed centrally through bank accounts controlled and maintained by IBM. Accordingly, cash and cash equivalents held by IBM at the corporate level were not attributable to us for any of the periods presented. Only cash amounts specifically attributable to us are reflected in the combined financial statements included throughout this Information Statement. Transfers of cash, both to and from IBM's centralized cash management system, are reflected as a component of Net Parent investment in the Combined Balance Sheet and as a financing activity on the Combined Statement of Cash Flows. Historically, we received or provided funding as part of IBM's centralized treasury program. IBM's debt was not attributed to us because IBM's borrowings are not our legal obligation. Interest expense in the Combined Income Statement reflects the allocation of interest on borrowing and funding related activity associated with the portion of IBM's borrowings where the proceeds benefited us. The only third-party debt obligations included in the combined financial statements are those for which we are the legal obligor.

During the periods presented, we functioned as part of an operating segment of IBM. Accordingly, IBM performed certain corporate overhead functions for us. Therefore, certain corporate costs, including compensation costs for corporate employees supporting us, have been allocated from IBM. These allocated costs are for corporate functions including, but not limited to, senior management, legal, human resources, finance and accounting, treasury, IT, marketing and communications, internal audit and other shared services, which are not provided at the business level. Where possible, these costs were allocated based on direct usage, with the remainder allocated on a basis of cost, headcount or other measures we have determined as reasonable. The combined financial statements included throughout this Information Statement do not necessarily represent the expenses that would have been incurred or held by us had we been a separate, standalone company.

As a result of the allocations and carve out methodologies used to prepare these combined financial statements, the combined financial statements included throughout this Information Statement may not be indicative of our future performance, do not necessarily include the actual expenses that would have been incurred by us and may not reflect our results of operations, financial position and cash flows had we been a separate, standalone company during the periods presented. Our operations are included in the consolidated U.S. federal, and certain state and local and foreign income tax returns filed by IBM, where applicable. The income tax provision included in the combined financial statements has been calculated using the separate return basis, as if we filed separate tax returns. Post-separation, our operating footprint as well as tax return elections and assertions are expected to be different and therefore, our hypothetical income taxes, as presented in the combined financial statements, are not expected to be indicative of our future income taxes. Current income tax liabilities including amounts for unrecognized tax benefits related to our activities included in IBM's income tax returns were assumed to be immediately settled with IBM through the Net Parent investment account in the Combined Balance Sheet and reflected in Net transfers from Parent in the Combined Statement of Cash Flows.

YEARS IN REVIEW**Results of Operations****Segment Details**

The following is an analysis of the 2020, 2019 and 2018 reportable segment results. The table below presents each reportable segment's external revenue and gross margin results. Segment revenue and pre-tax income/(losses) exclude any transactions between the segments.

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 | Yr.-to-Yr. Percent/Margin Change | |
|---|----------|----------|----------|--|-----------|
| | | | | 2020–2019 | 2019–2018 |
| Revenue | | | | | |
| Americas | \$ 7,401 | \$ 7,951 | \$ 8,581 | (6.9)% | (7.3)% |
| Gross profit margin | 16.3% | 17.4% | 17.6% | (1.1)pts. | (0.2)pts. |
| Europe/Middle East/Africa | \$ 7,289 | \$ 7,566 | \$ 8,162 | (3.7)% | (7.3)% |
| Gross profit margin | 1.6% | 4.5% | 3.5% | (2.9)pts. | 1.0pts. |
| Japan | \$ 3,037 | \$ 2,925 | \$ 2,936 | 3.8% | (0.4)% |
| Gross profit margin | 20.8% | 19.3% | 15.7% | 1.5pts. | 3.6pts. |
| Asia Pacific | \$ 1,625 | \$ 1,838 | \$ 2,117 | (11.6)% | (13.2)% |
| Gross profit margin | 15.8% | 17.0% | 14.0% | (1.2)pts. | 3.0pts. |
| Total revenue | \$19,352 | \$20,279 | \$21,796 | (4.6)% | (7.0)% |
| Total gross profit | \$ 2,210 | \$ 2,596 | \$ 2,557 | (14.9)% | 1.5% |
| Total gross profit margin | 11.4% | 12.8% | 11.7% | (1.4)pts. | 1.1pts. |

Americas

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 | Yr.-to-Yr. Percent/Margin Change | |
|---|----------|---------|---------|--|-----------|
| | | | | 2020–2019 | 2019–2018 |
| Americas | | | | | |
| Revenue | \$7,401 | \$7,951 | \$8,581 | (6.9)% | (7.3)% |
| Gross profit | 1,205 | 1,381 | 1,514 | (12.7) | (8.7) |
| Gross profit margin | 16.3% | 17.4% | 17.6% | (1.1)pts. | (0.3)pts. |
| Pre-tax income/(loss) | \$ (313) | \$ (22) | \$ 130 | nm | nm |
| Pre-tax income/(loss) margin | (4.2)% | (0.3)% | 1.5% | (3.9)pts. | (1.8)pts. |

nm — not meaningful

2020 Performance

Americas revenue of \$7,401 million in 2020 declined by 6.9 percent when compared to the prior-year period driven by declines across the contract portfolio and impacts from the COVID-19 pandemic, mainly in the United States, Canada and Brazil. Gross profit margin of 16.3 percent declined 1.1 points when compared to 2019. Pre-tax loss of \$313 million increased \$290 million when compared to the prior-year period. Pre-tax margin of (4.2) percent worsened by 3.9 points when compared to the prior-year period. Pre-tax loss and pre-tax margin reflect the impact of workforce rebalancing actions taken in 2020 to simplify and optimize our operating model.

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Pursuant to 17 C.F.R. Section 200.83**

2019 Performance

Americas revenue of \$7,951 million in 2019 declined by 7.3 percent when compared to 2018 mainly driven by declines in the United States partially offset by increases in Canada and Mexico. Gross profit margin of 17.4 percent declined 0.2 points when compared to 2018. In 2019, we took discrete contract and portfolio actions to exit lower value offerings which also had an impact on revenue. Pre-tax income declined by \$152 million to a loss of \$22 million in 2019. Pre-tax margin of (0.3) percent worsened by 1.8 points when compared to the prior-year period.

Europe/Middle East/Africa

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 | Yr.-to-Yr. Percent/Margin Change | |
|---|-----------|----------|-----------|--|-------------|
| | | | | 2020 – 2019 | 2019 – 2018 |
| Europe/Middle East/Africa | | | | | |
| Revenue | \$ 7,289 | \$7,566 | \$ 8,162 | (3.7)% | (7.3)% |
| Gross profit | 116 | 339 | 286 | (65.8) | 18.5 |
| Gross profit margin | 1.6% | 4.5% | 3.5% | (2.9)pts. | 1.0pts. |
| Pre-tax income/(loss) | \$(1,825) | \$ (926) | \$(1,006) | 97.0% | (7.9) |
| Pre-tax income/(loss) margin | (25.0)% | (12.2)% | (12.3)% | (12.8)pts. | 0.1pts. |

2020 Performance

EMEA revenue of \$7,289 million in 2020 declined by 3.7 percent when compared to the prior-year period driven by declines across the contract portfolio and impacts from the COVID-19 pandemic, mainly in the United Kingdom, the Netherlands and Germany. Gross profit margin of 1.6 percent declined 2.9 points when compared to 2019, which can be attributed to declines in client business volumes impacted by the macroeconomic environment. Overall, gross profit margins within the EMEA segment are typically lower than those in our other reportable segments due to a higher labor resource cost profile. Pre-tax loss of \$1,826 million increased by \$899 million when compared to the prior-year period. Pre-tax margin of (25.0) percent worsened by 12.8 points when compared to the prior-year period. Pre-tax loss and pre-tax margin reflect the impact of workforce rebalancing actions taken in 2020 to simplify and optimize our operating model.

2019 Performance

EMEA revenue of \$7,566 million in 2019 declined by 7.3 percent when compared to 2018 driven by declines across the contract portfolio, mainly in Germany, France, Italy and Belgium. Gross profit margin of 4.5 percent improved 1.0 point when compared to 2018. 2019 performance was impacted by the restructuring of low margin contracts which was a headwind to revenue but a help to profit. Pre-tax losses declined by \$79 million to a loss of \$926 million in 2019. Pre-tax margin of (12.2) percent improved by 0.1 points when compared to the prior-year period.

Japan

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 | Yr.-to-Yr. Percent/Margin Change | |
|---|---------|---------|---------|--|-------------|
| | | | | 2020 – 2019 | 2019 – 2018 |
| Japan | | | | | |
| Revenue | \$3,037 | \$2,925 | \$2,936 | 3.8% | (0.4)% |
| Gross profit | 632 | 564 | 462 | 12.1 | 21.9 |
| Gross profit margin | 20.8% | 19.3% | 15.7% | 1.5pts. | 3.5pts. |
| Pre-tax income/(loss) | \$ 195 | \$ 179 | \$ 105 | 9.3% | 70.8% |
| Pre-tax income/(loss) margin | 6.4% | 6.1% | 3.6% | 0.3pts. | 2.5pts. |

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Pursuant to 17 C.F.R. Section 200.83**

2020 Performance

Japan revenue of \$3,037 million in 2020 increased by 3.8 percent when compared to the prior-year period driven by strong performance in new client contracts. Gross profit margin of 20.8 percent increased 1.5 points when compared to 2019. Pre-tax income of \$195 million increased by \$16 million when compared to the prior-year period. Pre-tax margin of 6.4 percent improved by 0.3 points when compared to the prior-year period.

2019 Performance

Japan revenue of \$2,925 million in 2019 was flat when compared to the prior-year period. Gross profit margin of 19.3 percent improved 3.5 points when compared to 2018. Pre-tax income of \$179 million in 2019 increased by 70.8 percent when compared to 2018. Pre-tax margin of 6.1 percent improved by 2.5 points when compared to the prior-year period.

Asia Pacific

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 | Yr.-to-Yr. Percent/Margin Change | |
|---|---------|---------|---------|--|-------------|
| | | | | 2020 – 2019 | 2019 – 2018 |
| Asia Pacific | | | | | |
| Revenue | \$1,625 | \$1,838 | \$2,117 | (11.6)% | (13.2)% |
| Gross profit | 257 | 313 | 296 | (17.8) | 5.8 |
| Gross profit margin | 15.8% | 17.0% | 14.0% | (1.2)pts. | 3.1pts. |
| Pre-tax income/(loss) | \$ 176 | \$ 191 | \$ 141 | (7.7) | 35.4 |
| Pre-tax income/(loss) margin | 10.8% | 10.4% | 6.6% | 0.5pts. | 3.7pts. |

2020 Performance

Asia Pacific revenue of \$1,625 million in 2020 decreased by 11.6 percent when compared to the prior-year period driven by declines across the contract portfolio, mainly in Australia and India. Gross profit margin of 15.8 percent decreased 1.2 points when compared to 2019. Pre-tax income of \$176 million decreased by 7.7 percent when compared to the prior-year period. Pre-tax margin of 10.8 percent improved by 0.5 points when compared to the prior-year period.

2019 Performance

Asia Pacific revenue of \$1,838 million in 2019 declined 13.2 percent compared to the prior-year period, primarily driven by Australia and India. Performance was impacted by the decision to move away from lower value workloads and shift into higher value offerings. Gross profit margin of 17.0 percent improved 3.1 points when compared to 2018. Pre-tax income of \$191 million in 2019 increased by 35.4 percent when compared to 2018. Pre-tax margin of 10.4 percent improved by 3.7 points when compared to the prior-year period.

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Total Expense and Other Income

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 | Yr.-to-Yr. Percent Change | |
|---|----------------|----------------|----------------|---------------------------------|---------------|
| | | | | 2020–2019 | 2019–2018 |
| Expense and other (income) | | | | | |
| Selling, general and administrative | \$2,893 | \$2,887 | \$2,924 | 0.2% | (1.3)% |
| Workforce rebalancing charges | 918 | 159 | 116 | 476.1 | 37.1 |
| Research, development and engineering | 76 | 83 | 69 | (9.3) | 20.9 |
| Interest expense | 63 | 76 | 85 | (16.8) | (10.7) |
| Other (income) and expense | 25 | (29) | (7) | nm | 339.8 |
| Total expense and other (income) | \$3,975 | \$3,176 | \$3,187 | 25.1% | (0.3)% |

nm — not meaningful

Total expense and other (income) year-to-year results for the year ended December 31, 2020 were impacted by pre-tax workforce rebalancing charges of \$0.9 billion to simplify and optimize our operating model.

Total expense and other (income) increased 25.1 percent in 2020 versus the prior year primarily driven by higher charges for workforce rebalancing and decreases in other income, partially offset by lower interest expense, and reductions in travel and other expenses associated with COVID-19 restrictions.

Total expense and other (income) was essentially flat when comparing 2019 versus 2018, primarily driven by higher charges for workforce rebalancing partially offset by declines in total selling, general and administrative (SG&A) expense.

For additional information regarding total expense and other (income) for both expense presentations, see the following analyses by category.

Selling, General and Administrative Expense

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 | Yr.-to-Yr. Percent Change | |
|--|----------------|----------------|----------------|---------------------------------|---------------|
| | | | | 2020–2019 | 2019–2018 |
| Selling, general and administrative expense | | | | | |
| Selling, general and administrative-other | \$1,493 | \$1,524 | \$1,602 | (2.0)% | (4.8)% |
| Allocation of corporate expenses | 1,216 | 1,178 | 1,206 | 3.2 | (2.3) |
| Related party intangible assets fee | 49 | 23 | — | 109.7 | nm |
| Stock-based compensation | 36 | 34 | 40 | 4.5 | (13.6) |
| Advertising and promotional expense | 34 | 55 | 40 | (39.3) | 37.5 |
| Provision for expected credit loss expense | 25 | 51 | 16 | (50.6) | 228.0 |
| Spin-off-related charges | 20 | — | — | nm | nm |
| Amortization of acquired intangible assets | 20 | 20 | 20 | (0.6) | 0.2 |
| Total selling, general and administrative expense | \$2,893 | \$2,887 | \$2,924 | 0.2% | (1.3)% |

nm — not meaningful

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Pursuant to 17 C.F.R. Section 200.83**

Total SG&A expense was flat when comparing 2020 versus 2019, driven primarily by the following factors:

- Spending reductions associated with COVID-19 restrictions as well as lower employee compensation expense as a result of the workforce rebalancing actions taken in 2019, and
- Lower provisions for expected credit losses; partially offset by
- Higher fees for the use of IBM's acquired intangible assets of \$26 million, and
- Higher allocations of IBM corporate overhead of \$38 million.

Provisions for expected credit loss expense decreased \$26 million in 2020 compared to 2019 driven by lower contract-specific reserve requirements. The receivables provision coverage was 5.9 percent at December 31, 2020, an increase of 158 basis points from December 31, 2019. The higher coverage rate at December 31, 2020 reflects the overall decline in total receivables.

Total SG&A expense decreased 1.3 percent in 2019 as compared to 2018, driven primarily by the following factors:

- Lower allocations of IBM corporate overhead of \$28 million, partially offset by
- Higher provisions for expected credit losses.

Provisions for expected credit loss expense increased \$36 million in 2019 compared to 2018 driven by higher contract-specific reserve requirements. The receivables provision coverage was 4.4 percent at December 31, 2019, a decrease of 127 basis points from December 31, 2018. The lower coverage rate at December 31, 2019 reflects the write-off of previously reserved receivables.

Workforce Rebalancing

In 2020, we recorded \$918 million in workforce rebalancing charges in the Combined Income Statement for severance and employee related benefits in accordance with the accounting guidance for ongoing benefit arrangements, an increase of \$759 million compared to 2019. The increase was primarily driven by structural actions taken in the fourth quarter to simplify and optimize our operating model. The impact to pre-tax income by segment for the year ended December 31, 2020 was as follows: EMEA \$722 million, Americas \$117 million, Asia Pacific \$51 million, and Japan \$28 million. We expect the majority of the employee exits to be completed by the end of 2021.

Workforce rebalancing charges of \$159 million increased by \$43 million in 2019 compared to 2018 driven by structural actions taken in the year to improve our cost competitiveness.

Research, Development and Engineering Expense

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 | Yr.-to-Yr. Percent Change | |
|--|------|------|------|---------------------------------|-------------|
| | | | | 2020 – 2019 | 2019 – 2018 |
| Research, development and engineering expense | \$76 | \$83 | \$69 | (9.3)% | 20.9% |
| Allocation of corporate expenses | 4 | 7 | 0 | (44.1) | nm |

nm — not meaningful

Research, development and engineering (RD&E) expense was \$76 million in 2020, \$83 million in 2019 and \$69 million in 2018. Within these amounts, software-related expense was \$50 million, \$44 million and \$30 million in 2020, 2019 and 2018, respectively.

RD&E expense was less than 1 percent of total revenue in all periods presented.

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Pursuant to 17 C.F.R. Section 200.83

Other (Income) and Expense

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 | Yr.-to-Yr. Percent Change | |
|---|-------------|---------------|---------------|---------------------------------|---------------|
| | | | | 2020–2019 | 2019–2018 |
| Other (income) and expense | | | | | |
| Retirement-related costs/(income) | \$27 | \$ 27 | \$ 46 | (1.6)% | (41.3)% |
| Allocation of corporate expenses/(income) | 4 | (31) | (53) | nm | (41.8) |
| Net(gain)/loss from derivatives | (6) | (20) | 1 | (70.6) | nm |
| Other (income) and expense | <u>0</u> | <u>(6)</u> | <u>(1)</u> | <u>nm</u> | <u>405.4</u> |
| Total other (income) and expense | <u>\$25</u> | <u>\$(29)</u> | <u>\$ (7)</u> | <u>nm%</u> | <u>339.8%</u> |

nm — not meaningful

Total other (income) and expense was expense of \$25 million in 2020 compared to income of \$29 million in 2019. The year-to-year change was primarily driven by net exchange losses (including impacts from IBM derivative instruments) in the current year versus net exchange gains (including impacts from IBM derivative instruments) in the prior-year period. Underlying foreign exchange gains/losses are included within the allocation of corporate expenses line in the table above.

Total other income of \$29 million in 2019 increased by \$22 million when compared to 2018. The year-to-year change was primarily driven by lower retirement-related costs of \$19 million.

Interest Expense

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 | Yr.-to-Yr. Percent Change | |
|---|------|------|------|---------------------------------|-----------|
| | | | | 2020–2019 | 2019–2018 |
| Total interest expense | \$63 | \$76 | \$85 | (16.8)% | (10.7)% |
| Allocation of corporate expenses | 63 | 76 | 85 | (16.3) | (10.6) |

Interest expense decreased \$13 million in 2020 and \$9 million in 2019 when compared to the prior-year periods. We share in a portion of the interest expense incurred by IBM as IBM's debt balance supports the operations of our business. Interest expense was allocated on a pro rata asset balance between IBM and us.

Stock-Based Compensation

Pre-tax stock-based compensation cost of \$64 million increased \$10 million compared to 2019. Stock-based compensation cost, and the year-to-year change, was reflected in the following categories: Cost: \$26 million, up \$11 million; SG&A expense: \$36 million, down \$1 million; and RD&E expense: \$1 million, down \$1 million.

Retirement-Related Plans

The following table provides the total pre-tax cost for retirement-related plans. Service cost, multi-employer plans and cost of defined contribution plans are included in the Combined Income Statement within the caption (e.g., Cost, SG&A, RD&E) relating to the job function of the plan participants. The other components of net periodic pension costs are included in other (income) and expense in the Combined Income Statement.

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 | Yr.-to-Yr. Percent Change | |
|---|--------------|--------------|--------------|---------------------------------|--------------|
| | | | | 2020–2019 | 2019–2018 |
| Retirement-related plans – cost | | | | | |
| Service cost | \$112 | \$105 | \$122 | 6% | (13)% |
| Multi-employer plans* | 7 | 9 | 11 | (16) | (21) |
| Cost of defined contribution plans | 194 | 207 | 208 | (6) | (1) |
| Interest cost | 11 | 18 | 17 | (37) | 1 |
| Expected return on plan assets | (25) | (28) | (22) | (12) | 31 |
| Recognized actuarial losses | 36 | 27 | 28 | 35 | (7) |
| Amortization of prior service costs/(credits) | (1) | (0) | (1) | nm | (96) |
| Curtailments/settlements | (0) | 0 | — | nm | nm |
| Other costs | 6 | 11 | 22 | (45) | (52) |
| Total retirement-related plans – cost | \$341 | \$348 | \$387 | (2)% | (10)% |

* Represents third-party plans.

nm — not meaningful

Total pre-tax retirement-related plan cost decreased by \$7 million in 2020 and by \$39 million in 2019 when compared to the prior-year periods. The decline in 2020 was primarily driven by lower costs for defined contribution plans and lower interest cost. The decline in 2019 was driven by lower service cost and other retirement-related costs.

Income Taxes

The provision for income taxes for 2020 was \$246 million compared to \$364 million in 2019. The decrease in the provision was primarily driven by higher pre-tax losses in 2020 partially offset by an increase in valuation allowances in jurisdictions with losses. The provision for income taxes for 2019 was \$364 million compared to \$350 million in 2018. The increase in the provision was primarily driven by lower pre-tax losses in 2019 and a change in valuation allowance associated with jurisdictions with losses. For more information, see note E, “Taxes,” in our combined financial statements.

Financial Position

Dynamics

Cash, restricted cash and marketable securities at December 31, 2020 were \$38 million, a decrease of \$12 million compared to prior year end. Notes and accounts receivables declined \$345 million to \$1,444 million as of December 31, 2020 reflective of lower business volumes and strategic mitigation actions. In 2020, we took actions to simplify and optimize our operating model which resulted in an increase in workforce rebalancing liabilities of \$549 million when compared to December 31, 2019.

At December 31, 2019, cash, restricted cash and marketable securities were \$50 million, an increase of \$5 million from the prior-year period. Our balance sheet position at December 31, 2019 reflects an increase in right-of-use assets and operating lease liabilities as a result of the implementation of the new accounting lease standard.

During 2020, we generated \$628 million in cash from operating activities, a decrease of \$506 million compared to 2019. The year-to-year decrease was primarily driven by the workforce rebalancing actions taken in 2020. During 2019, we generated \$1,134 million in cash from operating activities, an increase of \$674 million when compared to 2018. The increase was predominantly driven by a lower amount of spending on contract setup costs when compared to 2018. Our free cash flow was negative for 2020 at (\$324) million and for 2018 at (\$775) million while our free cash flow was positive for 2019 at \$8 million.

Consistent with accounting standards, we remeasured the funded status of our retirement and postretirement plans at December 31. At December 31, 2020, the overall net underfunded position was

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

\$548 million, an increase of \$60 million from December 31, 2019, driven by lower discount rates partially offset by strong asset returns. At December 31, 2019, the overall net underfunded position was \$488 million, an increase of \$63 million from December 31, 2018, driven by lower discount rates partially offset by strong asset returns.

Working Capital

| (\$ in millions) At December 31: | 2020 | 2019 |
|-------------------------------------|-----------|----------|
| Current assets | \$ 2,843 | \$ 3,151 |
| Current liabilities | 3,910 | 3,408 |
| Working capital | \$(1,067) | \$ (256) |
| Current ratio | 0.73:1 | 0.93:1 |

At December 31, 2020, working capital decreased \$811 million from the year-end 2019 position. The key changes are described below:

Current assets decreased \$308 million (\$379 million adjusted for currency) due to:

- A decrease of \$345 million in notes and accounts receivable; partially offset by
- An increase of \$71 million in deferred costs.

Current liabilities increased \$503 million (\$358 million adjusted for currency) as a result of:

- An increase in workforce rebalancing liabilities of \$549 million, and
- An increase in accounts payable of \$92 million; partially offset by
- A decrease in deferred income of \$43 million, and
- A decrease in accrued contract costs of \$38 million.

At December 31, 2019, working capital decreased \$521 million from the year-end 2018 position. The key changes are described below:

Current assets decreased \$149 million (\$125 million adjusted for currency) due to:

- A decrease of \$107 million in deferred costs, and
- A decrease of \$71 million in notes and accounts receivable

Current liabilities increased \$372 million (\$390 million adjusted for currency) as a result of:

- An increase in operating lease liabilities of \$328 million and an increase in short-term debt of \$42 million due to the implementation of the new lease standard, and
- An increase in accounts payable of \$32 million; partially offset by
- A decrease in employee compensation liabilities of \$45 million.

Receivables and Allowances

Roll Forward of Receivables Allowance for Credit Losses

| (\$ in millions) | | | | |
|------------------|------------------------|------------|--------|-------------------|
| January 1, 2020 | Additions / (Releases) | Write-offs | Other* | December 31, 2020 |
| \$82 | \$25 | \$(7) | \$(9) | \$91 |
| January 1, 2019 | Additions / (Releases) | Write-offs | Other* | December 31, 2019 |
| \$111 | \$51 | \$(78) | \$(3) | \$82 |

* Primarily represents translation adjustments and reclassifications.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

The receivables provision coverage was 5.9 percent at December 31, 2020, an increase of 158 basis points from December 31, 2019. The higher coverage rate at December 31, 2020 reflects the overall decline in total receivables. The receivables provision coverage was 4.4 percent at December 31, 2019, a decrease of 127 basis points from December 31, 2018. The lower coverage rate at December 31, 2019 reflects the write-off of previously reserved receivables.

Non-Current Assets and Liabilities

Non-current assets of \$8,362 million at December 31, 2020 declined by \$230 million (\$565 million adjusted for currency) when compared to December 31, 2019. The decline was driven by the following:

- A decline in property and equipment of \$134 million, and
- A decline in deferred costs of \$120 million, and
- A decline in operating right-of-use assets of \$87 million; partially offset by
- An increase in deferred taxes of \$76 million, and
- An increase in goodwill of \$67 million which was driven by currency.

Non-current assets of \$8,592 million at December 31, 2019 increased by \$1,008 million (\$1,017 million adjusted for currency) when compared to December 31, 2018. The increase was driven by the following:

- An increase in operating right-of-use assets of \$1,218 million driven by the adoption of the new lease standard, and
- An increase in deferred taxes of \$56 million; partially offset by
- A decline in deferred contract costs of \$196 million, and
- A decline in property and equipment of \$55 million.

Non-current liabilities of \$2,364 million at December 31, 2020 declined by \$24 million (\$150 million adjusted for currency) when compared to December 31, 2019. The decline was driven by the following:

- A decline in deferred income of \$72 million, and
- A decline in operating lease liabilities of \$40 million; partially offset by
- An increase in pension and post-retirement liabilities of \$61 million, and
- An increase in workforce rebalancing liabilities of \$52 million.

Non-current liabilities of \$2,388 million at December 31, 2019 increased by \$854 million (\$872 million adjusted for currency) when compared to December 31, 2018. The increase was driven by the following:

- An increase in operating lease liabilities of \$890 million and debt of \$100 million primarily due to the adoption of the new lease standard, and
- An increase in pension and post-retirement liabilities of \$63 million; partially offset by
- A decline in deferred income of \$146 million.

Equity

Total equity of \$4,931 million at December 31, 2020 decreased by \$1,017 million from December 31, 2019, primarily due to net losses of \$2,011 million, partially offset by net transfers from IBM within Net Parent investment of \$872 million.

Total equity of \$5,948 million at December 31, 2019 decreased by \$367 million from December 31, 2018, primarily due to net losses of \$943 million, partially offset by net transfers from IBM within Net Parent investment of \$598 million.

Cash Flow

Our cash flows from operating, investing and financing activities, as reflected in the Combined Statement of Cash Flows are summarized in the table below.

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 |
|---|----------------|-------------|--------------|
| Net cash provided by/(used in) continuing operations | | | |
| Operating activities | \$ 628 | \$ 1,134 | \$ 674 |
| Investing activities | (953) | (1,128) | (1,451) |
| Financing activities | 312 | 0 | 791 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 1 | (1) | (5) |
| Net change in cash, cash equivalents and restricted cash | <u>\$ (13)</u> | <u>\$ 5</u> | <u>\$ 10</u> |

2020 Cash Flow Performance

Net cash provided by operating activities decreased \$506 million in 2020 when compared to the prior-year period driven by the following key factors:

- Performance-related declines within net income, and
- A higher level of workforce rebalancing payments of \$226 million, and
- An increase in spending related to contract setup costs of \$93 million; partially offset by
- An increase in cash provided by receivables of \$364 million.

Net cash used in investing activities decreased \$175 million in 2020 when compared to the prior-year period driven by:

- Lower spending on property and equipment of \$153 million, and
- Higher proceeds from the disposition of property and equipment of \$21 million.

Net cash provided by financing activities increased \$312 million in 2020 when compared to the prior-year period driven by:

- An increase in net transfers from IBM of \$359 million, offset by
- An increase in capital lease payments of \$48 million.

2019 Cash Flow Performance

Net cash provided by operating activities increased \$460 million in 2019 when compared to 2018 driven by the following key factors:

- Lower spending related to contract setup costs,
- Performance-related increases within net income, partially offset by
- A decrease in cash provided by receivables of \$197 million.

Net cash used in investing activities decreased \$323 million in 2019 when compared to the prior-year period driven by:

- Lower spending on property and equipment of \$373 million; partially offset by
- Lower proceeds from the disposition of property and equipment of \$51 million.

Net cash provided by financing activities decreased \$791 million in 2019 when compared to the prior-year period driven by:

- A decrease in net transfers from IBM of \$773 million, and
- An increase in capital lease payments of \$18 million.

Other Information**Signings**

| (\$ in billions) At December 31: | 2020 | 2019 | Yr.-to-Yr. Percent Change | 2018 | Yr.-to-Yr. Percent Change |
|-------------------------------------|--------|--------|---------------------------------|--------|---------------------------------|
| Total signings | \$17.8 | \$18.1 | (1.8)% | \$22.4 | (19.2)% |

Signings have historically been used by IBM's management as an initial estimate of the value of a customer's commitment under a contract. Our management continues to evaluate the metrics that we will utilize to assess business performance moving forward as an independent company.

Signings metrics were used to monitor the performance of the business and to assess the business' ability to attract new customers and sell additional scope into our existing customer base. There are no third-party standards or requirements governing the calculation of signings. The calculation historically used by IBM's management involves estimates and judgments to gauge the extent of a customer's commitment, including the type and duration of the agreement, and the presence of termination charges or wind-down costs. Contract extensions and increases in scope are treated as signings only to the extent of the incremental new value. Signings can vary over time due to a variety of factors including, but not limited to, the timing of signing a small number of larger outsourcing contracts. The conversion of signings into revenue may vary based on the types of services and solutions, customer decisions, and other factors, which may include, but are not limited to, macroeconomic environment or external events.

Liquidity and Capital Resources

Over the past three years, cash flow from operations provided a source of funds ranging between \$628 million and \$1,134 million per year. We have generated positive net cash flow from operations in each of the three years presented, despite incurring net losses in each of those years. For the year ended December 31, 2020, we incurred significant workforce rebalancing charges, and, more recently, have undertaken other productivity actions in anticipation of becoming a separate stand-alone public company. After considering the effects of those charges and actions, and the resulting ongoing operating cash flow savings, IBM believes Kyndryl's cash flow from operations will be sufficient to fund ongoing operations and recurring capital expenditures through at least the end of 2022. Looking forward, IBM expects that Kyndryl will have additional liquidity through several sources: maintaining an adequate cash balance from operations, access to global funding sources including debt, leasing, and term loan markets, a committed global credit facility and other committed and uncommitted lines of credit worldwide. In addition to these resources, IBM expects that Kyndryl will have improved cash flows resulting from stronger operating performance, savings from structural actions to reduce infrastructure and overhead costs, and optimized asset management post Spin-Off. The following table provides a summary of the major sources of liquidity for the years ended December 31, 2018 through 2020.

Cash Flow and Liquidity Trends

| (\$ in millions) | 2020 | 2019 | 2018 |
|---|-------|---------|-------|
| Net cash from operating activities | \$628 | \$1,134 | \$674 |
| Cash and cash equivalents, restricted cash and short-term marketable securities | \$ 38 | \$ 50 | \$ 46 |

The Combined Statement of Cash Flows is prepared in accordance with applicable accounting standards for cash flow presentation and highlight causes and events underlying sources and uses of cash in that format.

IBM management has used free cash flow as a measure to evaluate its operating results, to plan strategic investments and assess its ability and need to incur and service debt. The entire free cash flow amount is not necessarily available for discretionary expenditures. We define free cash flow as net cash from operating activities less the change in net capital expenditures. Free cash flow guidance will be derived using an estimate of profit, working capital and operational cash flows.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 |
|--|---------|----------|---------|
| Net cash from operating activities per GAAP | \$ 628 | \$ 1,134 | \$ 674 |
| Capital expenditures, net | (952) | (1,126) | (1,449) |
| Free cash flow (FCF) | (324) | 8 | (775) |
| Change in cash, cash equivalents, restricted cash and short-term marketable securities | \$ (13) | \$ 5 | \$ 10 |

Contractual Obligations

| (\$ in millions) | Total Contractual Payment Stream | Payments Due In | | | |
|---|---|-----------------|----------------|----------------|--------------|
| | | 2021 | 2022–23 | 2024–25 | After 2025 |
| Finance lease obligations ⁽¹⁾ | \$ 209 | \$ 69 | \$ 109 | \$ 31 | \$ 0 |
| Operating lease obligations ⁽¹⁾ | 1,246 | 353 | 458 | 219 | 215 |
| Purchase obligations ⁽²⁾ | 3,062 | 825 | 1,452 | 785 | — |
| Other long-term liabilities: | | | | | |
| Long-term termination benefits ⁽³⁾ | 671 | 597 | 56 | 12 | 7 |
| Other | 50 | 21 | 12 | 15 | 2 |
| Total | \$5,238 | \$1,865 | \$2,087 | \$1,062 | \$225 |

- (1) Finance lease obligations are presented on a discounted cash flow basis, whereas operating lease obligations are presented on an undiscounted cash flow basis.
- (2) Includes amounts committed for the purchase of goods and services under legally enforceable contracts. Where it is not practically feasible to determine the legally enforceable portion of our obligation under certain long-term purchase agreements, we include additional expected purchase obligations beyond what may be legally enforceable.
- (3) Related primarily to structural actions in the fourth quarter of 2020, most of which is expected to be paid in 2021.

The previous table summarizes our contractual obligations requiring future cash payments as of December 31, 2020 on a historical basis. Certain contractual obligations exclude the effects of time value and therefore, may not equal the amounts reported in the Combined Balance Sheet. Certain noncurrent liabilities are excluded from the previous table as their future cash outflows are uncertain. This includes deferred taxes, deferred income, disability benefits and other sundry items.

Purchase obligations include all commitments to purchase goods or services of either a fixed or minimum quantity that meet any of the following criteria: (1) they are noncancelable, (2) we would incur a penalty if the agreement was canceled, or (3) we must make specified minimum payments even if we do not take delivery of the contracted products or services (take-or-pay). If the obligation to purchase goods or services is noncancelable, the entire value of the contract is included in the previous table. If the obligation is cancelable, but we would incur a penalty if canceled, the dollar amount of the penalty is included as a purchase obligation. Contracted minimum amounts specified in take-or-pay contracts are also included in the table as they represent the portion of each contract that is a firm commitment.

In the ordinary course of business, we enter into contracts that specify that we will purchase all or a portion of our requirements of a specific product, commodity or service from a supplier or vendor. These contracts are generally entered into in order to secure pricing or other negotiated terms. They do not specify fixed or minimum quantities to be purchased and, therefore, we do not consider them to be purchase obligations.

Off-Balance Sheet Arrangements

From time to time, we may enter into off-balance sheet arrangements as defined by SEC Financial Reporting Release 67 (FRR-67), “Disclosure in Management’s Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations.”

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

At December 31, 2020, and December 31, 2019, we had no such off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. See the table above for our contractual obligations, and note K, "Commitments and Contingencies," to our combined financial statements for detailed information about our guarantees, financial commitments, and indemnification arrangements. We do not have retained interests in assets transferred to unconsolidated entities or other material off-balance sheet interests or instruments.

Critical Accounting Estimates

The application of GAAP requires us to make estimates and assumptions about certain items and future events that directly affect our reported financial condition. The accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to our financial statements. An accounting estimate is considered critical if both (a) the nature of the estimate or assumption is material due to the levels of subjectivity and judgment involved, and (b) the impact within a reasonable range of outcomes of the estimate and assumption is material to our financial condition. Our significant accounting policies are described in note A, "Significant Accounting Policies," to our combined financial statements.

In 2020, the inputs into certain of our critical accounting estimates considered the macroeconomic impacts of the COVID-19 pandemic. These estimates included but were not limited to, the allowances for credit losses, the carrying values of goodwill and intangible assets and other long-lived assets, valuation allowances for tax assets and revenue recognition. The macroeconomic impacts of the COVID-19 pandemic did not have a material impact on our critical accounting estimates reflected in our 2020 results. Given the inherent uncertainty of the magnitude of future impacts from and/or the duration of the pandemic, our estimates may change materially in future periods.

A quantitative sensitivity analysis is provided where that information is reasonably available, can be reliably estimated and provides material information to investors. The amounts used to assess sensitivity (e.g., 1 percent, 10 percent, etc.) are included to allow users of the Information Statement to understand a general direction cause and effect of changes in the estimates and do not represent management's predictions of variability. For all of these estimates, it should be noted that future events rarely develop exactly as forecasted, and estimates require regular review and adjustment.

Pension Assumptions

For self-sponsored defined benefit pension plans, the measurement of the benefit obligation to plan participants and net periodic pension (income)/cost requires the use of certain assumptions, including, among others, estimates of discount rates and expected return on plan assets.

Changes in the discount rate assumptions would impact the (gain)/loss amortization and interest cost components of the net periodic pension (income)/cost calculation and the projected benefit obligation (PBO). If the average discount rate assumption for the non-U.S. defined benefit pension plans (Plans) had increased or decreased by 25 basis points from 0.62 percent on December 31, 2020, this would not result in a material change to pre-tax income recognized in 2021. Further changes in the discount rate assumptions would impact the PBO which, in turn, may impact our funding decisions if the PBO exceeds plan assets. A 25 basis point increase or decrease in the discount rate would cause a corresponding decrease or increase, respectively, in the Plans' PBO of an estimated \$40 million based upon December 31, 2020 data.

The expected long-term return on plan assets assumption is used in calculating the net periodic pension (income)/cost. Expected returns on plan assets are calculated based on the market-related value of plan assets, which recognizes changes in the fair value of plan assets systematically over a five-year period in the expected return on plan assets line in net periodic pension (income)/cost. The differences between the actual return on plan assets and the expected long-term return on plan assets are recognized over five years in the expected return on plan assets line in net periodic pension (income)/cost and also as a component of actuarial (gains)/losses, which are recognized over the service lives or life expectancy of the participants, depending on the plan, provided such amounts exceed thresholds which are based upon the benefit obligation or the value of plan assets, as provided by accounting standards.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

To the extent the outlook for long-term returns changes such that management changes its expected long-term return on plan assets assumption, a 50 basis point increase or decrease in the expected long-term return on plan assets assumption would not have a material estimated decrease or increase on the following year's pre-tax net periodic pension (income)/cost (based upon plan assets at December 31, 2020 and assuming no contributions are made in 2021).

We may voluntarily make contributions or be required, by law, to make contributions to our pension plans. Actual results that differ from the estimates may result in more or less future funding into the pension plans than is planned by management. Impacts of these types of changes on our pension plans would vary depending upon the status of each respective plan.

In addition to the above, we evaluate other pension assumptions involving demographic factors, such as retirement age and mortality, and update these assumptions to reflect experience and expectations for the future. Actual results in any given year can differ from actuarial assumptions because of economic and other factors.

For additional information on our pension plans and the development of these assumptions, see note N, "Retirement-Related Benefits," to our combined financial statements.

Revenue Recognition

Application of GAAP related to the measurement and recognition of revenue requires us to make judgments and estimates. Specifically, complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting, including whether promised goods and services specified in an arrangement are distinct performance obligations. In certain arrangements revenue is recognized based on progress toward completion of the performance obligation using a cost-to-cost measure of progress. The estimation of cost at completion is complex and requires us to make judgements and estimates. Other significant judgments include determining whether we are acting as the principal in a transaction and whether separate contracts should be combined and considered part of one arrangement.

Revenue recognition is also impacted by our ability to determine when a contract is probable of collection and to estimate variable consideration, including, for example, rebates, service-level penalties, and performance bonuses. We consider various factors when making these judgments, including a review of specific transactions, historical experience and market and economic conditions. Evaluations are conducted each quarter to assess the adequacy of the estimates. If the estimates were changed by 10 percent in 2020, the impact on net income would have been immaterial.

Costs to Complete Service Contracts

During the contractual period, revenue, cost and profits may be impacted by estimates of the ultimate profitability of each contract, especially contracts for which we use cost-to-cost measures of progress. If at any time these estimates indicate the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately in cost. We perform ongoing profitability analyses of these services contracts in order to determine whether the latest estimates require updating. Key factors reviewed to estimate the future costs to complete each contract are future labor costs and product costs and expected productivity efficiencies. Contract loss provisions recorded as a component of other accrued expenses and liabilities were immaterial at December 31, 2020 and 2019.

Capitalization of Outsourcing Contract Costs

In connection with outsourcing services arrangements, we incur and capitalize direct costs for transition and setup activities performed at the inception of these long-term contracts that are necessary to enable us to perform under the terms of the arrangement. These costs are capitalized and are amortized on a straight-line basis over the expected period of benefit. We perform periodic reviews to assess the recoverability of deferred contract transition and setup costs. To assess recoverability, undiscounted estimated cash flows of the contract are projected over its remaining life and compared to the carrying amount of contract related assets, including the unamortized deferred cost balance. Key factors reviewed to estimate the undiscounted

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cash flows are future labor costs and product costs and expected productivity efficiencies. Such estimates require judgment and assumptions, and actual future cash flows could differ from these estimates. A significant change in an estimate or assumption on one or more contracts could have a material effect on our results of operations.

Income Taxes

Our operations have historically been included in certain tax returns filed by IBM. The income tax provisions included in the combined financial statements have been calculated using the separate return basis, as if we filed separate tax returns. Post separation, our operating footprint as well as tax return elections and assertions are expected to be different and therefore, our hypothetical income taxes, as presented in the combined financial statements, are not expected to be indicative of our future income taxes. Current income tax liabilities including amounts for unrecognized tax benefits related to our activities included in the Parent's income tax returns were assumed to be immediately settled with Parent through the Net Parent investment account in the Combined Balance Sheet and reflected in Net transfers from Parent in the Combined Statement of Cash Flows.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments are required in determining the combined provision for income taxes.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, we recognize tax expense based on estimates of whether additional taxes will be due. The related tax liabilities are settled through the Net Parent investment account and are not reflected in the Combined Balance Sheet. However, the income tax expense related to these tax liabilities is reflected in provision for income taxes in the Combined Income Statement. Upon separation, liabilities related to unrecognized tax benefits for which we are liable and that are not included within our Combined Balance Sheet are expected to be reported within the post-spin balance sheet based upon tax authorities' ability to assert that we may be the primary obligor for historical taxes, among other factors.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets on a hypothetical separate return basis. In assessing the need for a valuation allowance, management considers all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of ongoing tax planning strategies/actions. However, amounts presented on the hypothetical separate return basis, including valuation allowances, are expected to differ from the deferred tax assets reported within our post-spin financial statements, based upon the impacts of the separation and application of local law, among other factors.

Valuation of Assets

The application of impairment accounting requires the use of significant estimates and assumptions. Impairment testing for assets, other than goodwill, requires the allocation of cash flows to those assets or group of assets and if required, an estimate of fair value for the assets or group of assets. Our estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that may occur.

Valuation of Goodwill

We review goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable by first assessing qualitative factors to determine if it is more likely than not that fair value is less than carrying value.

We assess qualitative factors in each of our reporting units that carry goodwill including relevant events and circumstances that affect the fair value of reporting units. Examples include, but are not limited to, macroeconomic, industry and market conditions, as well as other individual factors such as:

- A loss of key personnel;

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- A significant adverse shift in the operating environment of the reporting unit such as unanticipated competition;
- A significant pending litigation;
- A more likely than not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of; and
- An adverse action or assessment by a regulator.

We assess these qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. This quantitative test is required only if we conclude that it is more likely than not that a reporting unit's fair value is less than its carrying amount. Fair value is estimated by using a discounted cash flow model. We evaluated goodwill for impairment for all reporting units for all periods presented which resulted in no impairment. As of December 31, 2020, the estimated fair value of the EMEA reporting unit, which had goodwill of \$288 million, exceeded its carrying amount by 23 percent. Each of the other reporting units with goodwill had a fair value that was substantially in excess of its carrying value. Management's cash flow projections for the reporting unit with less significant headroom (EMEA or the "**Reporting Unit**"), included significant judgments and assumptions relating to projected EBITDA margins and the discount rate. We evaluated the sensitivity of the significant assumptions used in the discounted cash flow model to estimate fair value for the Reporting Unit. A decline in the projected EBITDA margins of 100 basis points or an increase in the discount rate of 100 basis points would not have resulted in an impairment of the Reporting Unit.

Loss Contingencies

We are currently involved in various claims and legal proceedings. At least quarterly, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation, and may revise our estimates. These revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

Quantitative and Qualitative Disclosures About Market Risk

Currency Rate Fluctuations

Changes in the relative values of non-U.S. currencies to the U.S. dollar affect our financial results and financial position. At December 31, 2020, currency changes resulted in assets and liabilities denominated in local currencies being translated into more dollars than at year-end 2019. During periods of sustained movements in currency, the marketplace and competition adjust to the changing rates. Large changes in foreign exchange rates relative to our functional currencies could increase the costs of our services to customers relative to local competitors thereby causing us to lose existing or potential customers. Currency movements impacted our year-to-year revenue growth. Based on the currency rate movements in 2020, total revenue decreased 5.0 percent as reported and 5.1 percent at constant currency versus 2019. For non-U.S. subsidiaries and branches that operate in U.S. dollars or whose economic environment is highly inflationary, translation adjustments are reflected in results of operations. Generally, we manage currency risk in these entities by linking prices and contracts to U.S. dollars. During 2018, the three-year cumulative inflation rates in Argentina, using a combination of monthly indices, exceeded the 100 percent threshold for hyperinflation. As a result, effective July 1, 2018, we changed the functional currency from local currency to U.S. dollar functional for Argentina with no material impact. In 2019 and 2020, the Argentinean economy continued to experience high inflation. The ongoing impact is not material given the size of our operations in the country (less than 1 percent of total 2020 and 2019 revenue, respectively).

Market Risk

In the normal course of business, our financial position is routinely subject to a variety of risks. In addition to the market risk associated with non-U.S. dollar denominated assets and liabilities, other

example of risk includes collectability of accounts receivable. We regularly assess these risks and have established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, we do not anticipate any material losses from these risks.

To meet disclosure requirements, we perform a sensitivity analysis to determine the effects that market risk exposures may have on the fair values of our financial assets. The financial instruments that are included in the sensitivity analysis are comprised of our cash and cash equivalents and short-term and long-term debt.

To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments. The market values for interest and foreign currency exchange risk are computed based on the present value of future cash flows as affected by the changes in rates that are attributable to the market risk being measured. The discount rates used for the present value computations were selected based on market interest and foreign currency exchange rates in effect at December 31, 2020, and 2019. The differences in this comparison are the hypothetical losses associated with each type of risk.

Information provided by the sensitivity analysis does not necessarily represent the actual changes in fair value that we would incur under normal market conditions because, due to practical limitations, all variables other than the specific market risk factor are held constant. In addition, the results of the model are constrained by the fact that certain items are specifically excluded from the analysis, while the financial instruments relating to the financing or hedging of those items are included by definition.

The results of the sensitivity analysis at December 31, 2020 and 2019 are as follows:

Interest Rate Risk

A hypothetical 10 percent adverse change in the levels of interest rates, with all other variables held constant, would result in an immaterial decrease in the fair value of our financial instruments at December 31, 2020 and 2019.

Foreign Currency Exchange Rate Risk

A hypothetical 10 percent adverse change in the levels of foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant, would result in an immaterial decrease in the fair value of our financial instruments at December 31, 2020 and 2019.

Cybersecurity

While cybersecurity risk can never be completely eliminated, our approach draws on the depth and breadth of our global capabilities, both in terms of our offerings to clients and our internal approaches to risk management. We offer commercial security solutions that deliver capabilities in areas such as identity and access management, data security, application security, network security and endpoint security. These solutions include pervasive encryption, threat intelligence, analytics, cognitive and artificial intelligence, and forensic capabilities that analyze client security events, yielding insights about attacks, threats, and vulnerabilities facing the client. We also offer professional consulting and technical services solutions for security from assessment and incident response to deployment and resource augmentation. In addition, we offer managed and outsourced security solutions from multiple security operations centers around the world. Finally, security is embedded in a multitude of our offerings through secure engineering and operations, and by critical functions (e.g., encryption, access control) in servers, storage, software, services, and other solutions.

From an enterprise perspective, we implement a multi-faceted risk-management approach based on the National Institute of Standards and Technology Cybersecurity Framework to identify and address cybersecurity risks. In addition, we have established policies and procedures that provide the foundation upon which our infrastructure and data are managed. We regularly assess and adjust our technical controls and methods to identify and mitigate emerging cybersecurity risks. We use a layered approach with overlapping controls to defend against cybersecurity attacks and threats on networks, end-user devices, servers, applications, data and cloud solutions. We draw heavily on our own commercial security solutions and

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services to mitigate cybersecurity risks. We also have threat intelligence and security monitoring programs, as well as a global incident response process to respond to cybersecurity threats and attacks. In addition, we utilize a combination of online training, educational tools, videos and other awareness initiatives to foster a culture of security awareness and responsibility among our workforce.

MANAGEMENT

The following table presents information concerning our executive officers and directors following the Spin-Off, including a five-year employment history.

| Name | Age | Position |
|--------------------|-----|-------------------------------|
| Martin Schroeter | 56 | Chief Executive Officer |
| Elly Keinan | 56 | Group President |
| Maryjo Charbonnier | 51 | Chief Human Resources Officer |
| Edward Sebold | 56 | General Counsel |

The following are brief biographies describing the backgrounds of our executive officers and directors.

Martin Schroeter. Mr. Schroeter was appointed our Chief Executive Officer in January 2021. From January 2018 until June 2020, Mr. Schroeter was Senior Vice President, IBM Global Markets, responsible for IBM's global sales, customer relationships and satisfaction, and worldwide geographic operations. He also oversaw IBM's marketing and communications functions and was responsible for building the company's brand and reputation globally. Mr. Schroeter was previously Senior Vice President and Chief Financial Officer, a position he held from January 2014 through December 2017. Prior to that, he served as General Manager of IBM Global Financing, where he managed a total asset base in excess of \$37 billion. Earlier in his IBM tenure, which began in 1992, Mr. Schroeter served in numerous roles in Japan, the United States, and Australia. Mr. Schroeter received his MBA from Carnegie Mellon University and his undergraduate degree from Temple University.

Elly Keinan. Mr. Keinan was appointed our Group President in March 2021. From September 2020 until his appointment as our Group President, Mr. Keinan served as a venture partner at Pitango Venture Capital, Israel's leading venture capital group, focused on scaling the success of growth stage technology companies. Prior to that, Mr. Keinan served a variety of executive roles at IBM from July 1987 to June 2020, including General Manager of IBM North America and Chairman of IBM Japan, and held top leadership roles in Latin America and Europe. Mr. Keinan received his MBA from University of Miami Herbert Business School and his Bachelor of Science in Computer Science and Electrical Engineering from Rensselaer Polytechnic Institute.

Maryjo Charbonnier. Ms. Charbonnier was appointed our Chief Human Resources Officer in July 2021. From January 2015 until her appointment, Ms. Charbonnier served as the Chief Human Resources Officer at Wolters Kluwer, where she was responsible for the design and implementation of all human resources strategies, policies and processes. Prior to that, Ms. Charbonnier served as the Chief Human Resources Officer at Broadridge Financial Solutions from August 2008 to December 2014. From August 1995 to August 2008, Ms. Charbonnier was an HR executive in a variety of leadership roles at PepsiCo, including Vice President for Talent Sustainability for PepsiCo Foods Americas. Ms. Charbonnier received her MBA from Southern Methodist University and her undergraduate degree from Catholic University.

Edward Sebold. Mr. Sebold will be appointed our General Counsel in connection with the Spin-Off. From March 2012 until his appointment as our General Counsel, Mr. Sebold served as Assistant General Counsel at IBM, leading several global legal functions at IBM, including teams that worked with services, IBM's Watson Health, litigation and mergers and acquisitions. Prior to joining IBM in 2012, Mr. Sebold was a partner at Jones Day in the firm's Cleveland and Houston offices. Mr. Sebold serves on the board of the Pro Bono Partnership. Mr. Sebold received his JD from University of Michigan and his undergraduate degree from John Carroll University.

Our Board Following the Spin-Off and Director Independence

Immediately following the Spin-Off, our Board will be comprised of _____ directors. A majority of our directors will meet the independence requirements set forth in the listing standards of the _____ at the time of the Spin-Off.

Committees of the Board

Effective upon the completion of the Spin-Off, our Board will have the following committees, each of which will operate under a written charter that will be posted on our website prior to the Spin-Off.

Audit Committee

The Audit Committee will be responsible for overseeing reports of our financial results, audit reporting, internal controls, and adherence to our code of ethics in compliance with applicable laws and regulations. Concurrent with that responsibility, as set out more fully in the Audit Committee charter, the Audit Committee will perform other functions, including:

- selecting the independent registered public accounting firm, approving all related fees and compensation, overseeing the work of the independent accountant, and reviewing its selection with the Board;
- annually preapproving the proposed services to be provided by the accounting firm during the year;
- reviewing the procedures of the independent registered public accounting firm for ensuring its independence and other qualifications with respect to the services performed for us;
- reviewing any significant changes in accounting principles or developments in accounting practices and the effects of those changes upon our financial reporting;
- assessing the effectiveness of our internal audit function and overseeing the adequacy of internal controls and risk management processes; and
- meeting with management prior to each quarterly earnings release and periodically to discuss the appropriate approach to earnings press releases and the type of financial information and earnings guidance to be provided to analysts and rating agencies.

The Audit Committee will have at least three members and will consist entirely of independent directors, each of whom will meet the independence requirements set forth in the listing standards of the _____, Rule 10A-3 under the Exchange Act and our Audit Committee charter. Each member of the Audit Committee will be financially literate, and at least one member of the Audit Committee will have accounting and related financial management expertise and satisfy the criteria to be an “audit committee financial expert” under the rules and regulations of the SEC, as those qualifications are interpreted by our Board in its business judgment. The initial members of the Audit Committee will be determined prior to the Spin-Off.

Compensation Committee

The Compensation Committee will have responsibility for defining and articulating our overall executive compensation philosophy and key compensation policies, and administering and approving all elements of compensation for corporate officers. Concurrent with that responsibility, as set out more fully in the Compensation Committee charter, the Compensation Committee will perform other functions, including:

- reviewing and approving the corporate goals and objectives relevant to the Chief Executive Officer’s compensation, evaluating performance in light of those goals and objectives and, together with the

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other independent directors, determining and approving the Chief Executive Officer's compensation based on this evaluation;

- reviewing our management resources programs (including our human capital management and diversity and inclusion practices) and recommending qualified candidates for election as officers;
- approving, by direct action or through delegation, participation in and all awards, grants, and related actions under our various equity plans;
- reviewing the compensation structure for our officers and providing oversight of management's decisions regarding performance and compensation of other employees; and
- monitoring compliance with stock ownership and clawback guidelines.

The initial members of our Compensation Committee will be determined prior to the Spin-Off.

Nominating and Governance Committee

The Nominating and Governance Committee will be devoted primarily to the continuing review, definition and articulation of our governance structure and practices. Concurrent with that responsibility, as set out more fully in the Nominating and Governance Committee charter, the Nominating and Governance Committee will perform other functions, including:

- leading the search for qualified individuals for election as our directors, including for inclusion in the slate of directors that the Board proposes for election by stockholders at the Annual Meeting, recommending qualified candidates to the Board for election as directors based on each such candidate's business or professional experience, the diversity of their background (including gender and ethnic diversity), and their talents and perspectives, reviewing and assessing the independence of each director nominee, and planning for future Board and Committee refreshment actions;
- advising and making recommendations to the Board on all matters concerning directorship practices, and on the function, composition and duties of the committees of the Board;
- assessing transactions with related persons under our related person transactions policy and reviewing the policy at least annually;
- reviewing our non-management director compensation practices;
- developing and making recommendations to the Board regarding a set of corporate governance guidelines;
- reviewing and considering our position and practices on significant issues of corporate social responsibility; and
- reviewing and considering stockholder proposals and director nominees.

The initial members of the Nominating and Governance Committee will be determined prior to the Spin-Off.

Code of Ethics

Prior to the completion of the Spin-Off, we will adopt a written code of ethics for directors, executive officers and employees. The code will be designed to deter wrongdoing and to promote, among other things:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- protection of client and third party information in compliance with applicable privacy and data security requirements;
- full, fair, accurate, timely and understandable disclosure in reports and documents that we file with the SEC and other regulators and in our other public communications;
- compliance with applicable laws, rules and regulations; and

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- accountability for adherence to the code and prompt internal reporting of any possible violation of the code.

Director Nomination Process

Our initial Board will be selected through a process involving both IBM and us. The initial directors who will serve after the Spin-Off will begin their terms at the time of the Distribution, with the exception of one independent director who will begin his or her term prior to the date on which “when-issued” trading of our common stock commences and will serve on our Audit Committee, Compensation Committee and Nominating and Governance Committee.

Corporate Governance Guidelines

The Board will adopt a set of Corporate Governance Guidelines in connection with the separation to assist it in guiding our governance practices, which will be regularly reviewed by the Nominating and Governance Committee. These guidelines will cover a number of areas, including Board independence, leadership, composition (including director qualifications and diversity), responsibilities and operations; director compensation; Chief Executive Officer evaluation and succession planning; Board committees; director orientation and continuing education; director access to management and independent advisers; annual Board and committee evaluations; the Board’s communication policy and others. A copy of our corporate governance guidelines will be posted on our website.

Communications with Non-Management Members of the Board

After the Spin-Off, stockholders and other interested parties may communicate with the Board, individual directors, the non-management directors as a group, or with the Chair, by writing in care of our Secretary or sending an email to .

DIRECTOR COMPENSATION**Compensation of Directors**

We expect that our Board will approve an initial director compensation program, as described below, pursuant to which each of our non-employee directors will receive an annual director fee and an annual equity award in connection with their services. In addition, each director will be reimbursed for out-of-pocket expenses in connection with his or her services. The initial director compensation program set out below was approved by IBM's Directors and Corporate Governance Committee and Board of Directors, based upon the recommendations by Semler Brossy, the third-party compensation consultant of IBM's Directors and Corporate Governance Committee. The program will be designed to enable continued attraction and retention of highly qualified directors and to address the time, effort, expertise and accountability required of active Board membership.

Following the Spin-Off, we expect that our Nominating and Governance Committee will periodically review and make recommendations to our Board regarding the form and amount of compensation for non-employee directors. Directors who are also our employees are expected to receive no additional compensation for service on our Board.

Annual Compensation

In general, we believe that annual compensation for non-employee directors should consist of both a cash component, designed to compensate members for their service on the Board and its committees, and an equity component, designed to align the interests of directors and stockholders and, by vesting over time, to create an incentive for continued service on the Board.

Board of Directors' Annual Compensation

| | |
|--|--|
| Cash Retainer | \$100,000 |
| Board Committee Chairmanship – Additional Cash Retainer | Audit Committee Chair: \$30,000 Compensation Committee Chair: \$22,500 Nominating and Governance Committee Chair: \$22,500 |
| Annual Equity Grants RSUs vest on the first anniversary of the date of grant. | Each non-employee director receives an annual RSU grant with a target value of \$200,000 |

Cash elements are expected to be paid in installments and prorated for partial years of service. In addition, if the Equity Plan is approved by IBM, as our sole stockholder, and our Board, it is expected that the maximum aggregate number of shares of our common stock that may be issued under all stock-based awards granted under such plan to non-employee directors would be

Stock Ownership Guidelines

We expect to adopt a stock ownership policy pursuant to which each non-employee director, while serving as a director of the Company, must hold our common stock with a market value of at least five times the annual cash retainer (or \$500,000) before being permitted to sell any of our common stock holdings, including net shares from vesting of RSU grants (i.e., shares vested less shares required to pay applicable taxes).

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion & Analysis (“**CD&A**”) sets forth prospective compensation arrangements for individuals who we expect to be our Named Executive Officers. Each of these individuals was either newly hired to become one of our executive officers or was formerly an IBM employee who was not primarily dedicated to our business. While certain of our executive officers will have been employed by IBM prior to the Spin-Off, their executive roles and compensation structures with us will differ in many respects from their most recent positions with IBM. Accordingly, we have not disclosed historical IBM compensation information with respect to such executive officers because the IBM compensation to any such individual was not representative of compensation for services to our business. We have adopted and will continue to develop our own compensation plans and programs and anticipate that each of our executive officers will be covered by these programs following the Spin-Off.

As discussed above, we are currently part of IBM and not an independent company, and our Compensation Committee has not yet been formed. Decisions about our executive compensation and benefits to date have been made by the Executive Compensation and Management Resources Committee of the IBM Board (the “**IBM Compensation Committee**”) and IBM senior management. Following the Spin-Off, we expect that our Compensation Committee will review our executive compensation and benefit programs and determine the appropriate compensation and benefits for our executive officers. Accordingly, our executive compensation and benefits programs following the Spin-Off may not be the same as those discussed below.

For purposes of this CD&A and the disclosure that follows, our “Named Executive Officers” (or “**NEOs**”) are listed below. Prior to the effectiveness of the registration statement of which this Information Statement forms a part, the other NEOs will be identified in this Compensation Discussion and Analysis.

- Martin Schroeter, Chief Executive Officer
- Elly Keinan, Group President
- Maryjo Charbonnier, Chief Human Resources Officer
- Edward Sebold, General Counsel

2021 Compensation Opportunities

The following table sets forth, on an annualized basis for 2021, the annual base salary and other compensation expected to be payable to each of our NEOs in accordance with their offer letters. See “Offer Letters” below for a summary of these agreements.

| NEO | Base Salary | Transaction Bonus | Sign-On Bonus | RSU Grant ⁽¹⁾ | PSU Grant ⁽¹⁾ |
|---|-------------|-------------------|---------------|--------------------------|-----------------------------|
| Martin Schroeter Chief Executive Officer | \$1,000,000 | \$2,000,000 | N/A | N/A | \$10,500,000 ⁽²⁾ |
| Elly Keinan Group President | \$ 800,000 | \$1,600,000 | \$2,000,000 | N/A | \$5,600,000 ⁽²⁾ |
| Maryjo Charbonnier Chief Human Resources Officer | \$ 615,000 | \$ 770,000 | \$ 875,000 | \$700,000 | \$1,000,000 |
| Edward Sebold General Counsel | \$ 595,700 | \$ 750,000 | N/A | N/A | \$1,000,000 |

(1) Restricted Share Unit (“**RSU**”) and Performance Share Unit (“**PSU**”) grant values reflect the planned value of the grant. In the case of the planned grant value, the number of shares granted are determined by dividing the planned value by the average of IBM’s closing stock price for the 30 active trading days prior to the date of grant.

(2) If, as of the closing of the Spin-Off, the fair market value of the IBM shares underlying Mr. Schroeter’s or Mr. Keinan’s target PSU award (“**IBM PSU Share Value**”) is less than the PSU planned grant

value by \$50,000 or more, then immediately after the closing of the Spin-Off, provided that the applicable performance criteria have been met or excused, the executive officer will receive a RSU award with respect to the number of shares of our common stock with a value on the date of grant equal to the difference between the target PSU grant value and the IBM PSU Share Value.

Our Compensation Programs Following the Spin-Off

Although executive compensation determinations following the Spin-Off will be made by the Compensation Committee, we expect that the primary objectives of our executive compensation will be to meet five key objectives: (1) align the interests of our leaders with those of our investors by varying compensation based on both long-term and annual business results and delivering a large portion of the total pay opportunity in our stock; (2) balance rewards for both short-term results and the long-term strategic decisions needed to ensure sustained business performance over time; (3) attract and retain the highly qualified senior leaders needed to drive a global enterprise to succeed in today's highly competitive marketplace; (4) motivate our leaders to deliver a high degree of business performance without encouraging excessive risk taking; and (5) differentiate rewards to reflect individual and team performance. To fulfill these objectives, we also expect that we will have an executive compensation program that includes three major elements—base salary, annual bonus incentives and long-term equity incentives, which may include restricted stock and performance-based equity awards. Other than the offer letters and initial equity grants, which are described below, we have not adopted any compensation policies, procedures or plans with respect to NEO compensation and any such determinations remain subject to the review and approval of the Compensation Committee.

Offer Letters with our Named Executive Officers

CEO Offer Letter. On January 2, 2021, IBM entered into an offer letter with Mr. Schroeter appointing him as our Chief Executive Officer, which became effective when he was hired on January 15, 2021, and which will be assumed by us following the Spin-Off. The offer letter provides Mr. Schroeter with an annual base salary of \$1,000,000, prorated for 2021 based on Mr. Schroeter's actual service for IBM during such year, a \$2,000,000 transaction bonus and a new hire PSU award of \$10,500,000 in planned value.

Mr. Schroeter's transaction bonus will be paid no later than February 1, 2022, subject to the closing of the Spin-Off and Mr. Schroeter remaining actively employed through the closing of the Spin-Off. Although the Spin-Off is expected to occur prior to December 31, 2021, Mr. Schroeter may still receive the transaction bonus if the Spin-Off is not complete by such date if (i) IBM's Chief Executive Officer, in his sole discretion, decides to pay the bonus in full prior to February 1, 2022 (provided Mr. Schroeter is an active employee on the payment date) or (ii) the Spin-Off was not completed for reasons beyond Mr. Schroeter's reasonable control and his employment is terminated without Cause (as defined below). In addition, if prior to December 31, 2021, for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer determines that such announcement or sale was not made as a result of Mr. Schroeter's performance in moving the Spin-Off to closure, then Mr. Schroeter will still be eligible to receive the transaction bonus within one month after the later of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer, subject to Mr. Schroeter's continued employment through such announcement or closing, as applicable.

Mr. Schroeter's new hire PSU award was granted on February 1, 2021 and will become eligible to vest if (i) the Spin-Off is completed as envisioned by January 1, 2023 (i.e., as described in this Information Statement) and (ii) immediately following the closing of the Spin-Off, Mr. Schroeter accepts employment as our Chief Executive Officer. If the performance criteria are achieved, the PSU award vests 33% on the six-month anniversary of the Spin-Off closing date, 33% on the first anniversary of the Spin-Off closing date and 34% on the second anniversary of the Spin-Off closing date, subject to continued employment on such dates (except as provided below). In addition, if for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer determines that such announcement or sale was not made as a result of Mr. Schroeter's performance in moving the Spin-Off to closure, then Mr. Schroeter will still be eligible to receive the PSUs on the six-month, first and second anniversaries of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer (in the case of a sale, also if Mr. Schroeter was not selected to become our Chief

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Executive Officer or was selected to become the Chief Executive Officer, but declines the offer), as applicable. Furthermore, if Mr. Schroeter's employment is terminated without Cause prior to the Spin-Off or the sale to a third party, or if the Spin-Off is completed and Kyndryl's offer of employment is not comparable in the aggregate to the terms of his offer letter (including with respect to annual salary, bonus and equity awards) or our Board does not appoint Mr. Schroeter as Chairman of our Board, then Mr. Schroeter will still be eligible to receive the PSUs on the six-month, first and second anniversaries of the termination date. If, other than by death or disability described below, the performance conditions are not met for any other reason by January 1, 2023, the PSUs will be canceled. Upon Mr. Schroeter's death or disability, the PSU award will remain eligible to vest in accordance with its terms and will vest if the Spin-Off does not occur as envisaged by January 1, 2023.

If, as of the closing of the Spin-Off, the IBM PSU Share Value of Mr. Schroeter's PSU award is less than \$10,500,000 by \$50,000 or more, then immediately after the closing of the Spin-Off, provided that the applicable performance criteria have been met or excused, Mr. Schroeter will receive an RSU award with respect to the number of shares of Kyndryl common stock with a value on the date of grant equal to the difference between \$10,500,000 and the IBM PSU Share Value, with such RSUs vesting on the same schedule as the PSU award. If the Spin-Off does not occur and we are instead sold to another buyer and as of the sale date the IBM PSU Share Value of Mr. Schroeter's PSU award is less than \$10,500,000 by \$50,000 or more, and Mr. Schroeter accepts employment with the buyer, then the buyer will grant an RSU award, or substantially equivalent cash or equity-based award in an affiliate of buyer, with a value equal to the difference between \$10,500,000 and the IBM PSU Share Value, with the award vesting on the same schedule as the PSU award.

For purposes of Mr. Schroeter's offer letter, Cause means, as reasonably determined by IBM, the occurrence of any of the following: (i) embezzlement, misappropriation of corporate funds or other material acts of dishonesty; (ii) commission or conviction of any felony or of any misdemeanor involving moral turpitude, or entry of a plea of guilty or nolo contendere to any felony or misdemeanor (other than a minor traffic violation or other minor infraction); (iii) engagement in any activity that Mr. Schroeter knows or should know could harm our business or reputation; (iv) failure to adhere to our corporate codes, policies or procedures; (v) a breach of any covenant in any employment agreement or any intellectual property agreement, or a breach of any other provision of Mr. Schroeter's employment agreement, in either case if the breach is not cured to our satisfaction within a reasonable period after Mr. Schroeter is provided with notice of the breach (no notice and cure period is required if the breach cannot be cured); (vi) failure by Mr. Schroeter to perform his duties or follow management direction, which failure is not cured to our satisfaction within a reasonable period of time after a written demand for substantial performance is delivered to Mr. Schroeter (no notice or cure period is required if the failure to perform cannot be cured); (vii) violation of any statutory, contractual or common law duty or obligation to us, including, without limitation, the duty of loyalty; or (viii) rendering of services for any organization or engaging directly or indirectly in any business which is or becomes competitive with us, or which organization or business, or the rendering of services to such organization or business, is or becomes otherwise prejudicial to or in conflict with our interests; or (ix) acceptance of an offer to engage in or associate with any business which is or becomes competitive with us; provided, however, that the mere failure to achieve performance objectives shall not constitute Cause.

Group President Offer Letter. On March 1, 2021, IBM entered into an offer letter with Mr. Keinan appointing him as our Group President, which became effective on March 8, 2021, and which will be assumed by us following the Spin-Off. The offer letter provides Mr. Keinan with an annual base salary of \$800,000, prorated for 2021 based on Mr. Keinan's actual service for IBM during such year, a \$1,600,000 transaction bonus, a new hire equity PSU award of \$5,600,000 in planned value and a \$2,000,000 sign-on bonus.

Mr. Keinan's transaction bonus will be paid no later than February 1, 2022, subject to the closing of the Spin-Off and Mr. Keinan remaining actively employed through the closing of the Spin-Off. Although the Spin-Off is expected to occur prior to December 31, 2021, Mr. Keinan may still receive the transaction bonus if the Spin-Off is not complete by such date if (i) IBM's Chief Executive Officer, in his sole discretion, decides to pay the bonus in full prior to February 1, 2022 (provided Mr. Keinan is an active employee on the payment date) or (ii) the Spin-Off was not completed for reasons beyond Mr. Keinan's reasonable control

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Pursuant to 17 C.F.R. Section 200.83**

and his employment is terminated without Cause (as defined below). In addition, if prior to December 31, 2021, for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer determines that such announcement or sale was not made as a result of Mr. Keinan's performance in moving the Spin-Off to closure, then Mr. Keinan will still be eligible to receive the transaction bonus within one month after the later of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer, subject to Mr. Keinan's continued employment through such announcement or closing, as applicable.

Mr. Keinan's new hire PSU award was granted on April 1, 2021 and will become eligible to vest if (i) the Spin-Off is completed as envisioned by January 1, 2023 (i.e., as described in this Information Statement) and (ii) immediately following the closing of the Spin-Off, Mr. Keinan accepts employment as our Group President. If the performance criteria are achieved, the PSU award vests 33% on the six-month anniversary of the Spin-Off closing date, 33% on the first anniversary of the Spin-Off closing date and 34% on the second anniversary of the Spin-Off closing date, subject to continued employment on such dates (except as provided below). In addition, if for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer determines that such announcement or sale was not made as a result of Mr. Keinan's performance in moving the Spin-Off to such closure, then Mr. Keinan will still be eligible to receive the PSUs on the six-month, first and second anniversaries of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer (in the case of a sale, also if Mr. Keinan was not selected to become our Group President or a substantially comparable role), as applicable. Furthermore, if Mr. Keinan's employment is terminated without Cause prior to the Spin-Off or the sale to a third party, or if the Spin-Off is completed and our offer of employment is not comparable in the aggregate to the terms of his offer letter (including with respect to annual salary, bonus and equity awards), then Mr. Keinan will still be eligible to receive the PSUs on the six-month, first and second anniversaries of the termination date. If, other than by death or disability described below, the performance conditions are not met for any other reason by January 1, 2023, the PSUs will be canceled. Upon Mr. Keinan's death or disability, the PSU award will remain eligible to vest in accordance with its terms and will vest if the Spin-Off does not occur as envisaged by January 1, 2023.

If, as of the closing of the Spin-Off, the IBM PSU Share Value of Mr. Keinan's PSU award is less than \$5,600,000 by \$50,000 or more, then immediately after the closing of the Spin-Off, provided that the applicable performance criteria have been met or excused, Mr. Keinan will receive an RSU award with respect to the number of shares of Kyndryl common stock with a value on the date of grant equal to the difference between \$5,600,000 and the IBM PSU Share Value, with such RSUs vesting on the same schedule as the PSU award. If the Spin-Off does not occur and we are instead sold to another buyer and as of the sale date the IBM PSU Share Value of Mr. Keinan's PSU award is less than \$5,600,000 by \$50,000 or more, and Mr. Keinan accepts employment with the buyer, then the buyer will grant an RSU award or substantially equivalent cash or equity-based award in an affiliate of buyer, with a value equal to the difference between \$5,600,000 and the IBM PSU Share Value, with the award vesting on the same schedule as the PSU award.

Mr. Keinan's sign-on bonus was paid within two months of his hire date, and must be repaid if Mr. Keinan's employment with IBM, or us after the closing of the Spin-Off, ends within two years after his hire date. Mr. Keinan will not be required to repay his sign on bonus upon his termination of employment from IBM and us if: (i) IBM formally announces that it will not complete the Spin-Off, and IBM's Chief Executive Officer determines that such decision was not made as a result of Mr. Keinan's performance in moving the Spin-Off to closure; (ii) we are purchased by another buyer, and (a) IBM's Chief Executive Officer determines that such decision was not made as a result of Mr. Keinan's performance and (b) Mr. Keinan is not selected for a substantially comparable role at the new company; or (iii) such termination was without Cause.

For purposes of Mr. Keinan's offer letter, Cause has the same meaning as in Mr. Schroeter's offer letter.

Chief Human Resources Officer Offer Letter. On May 28, 2021, IBM entered into an offer letter with Ms. Charbonnier appointing her as our Chief Human Resources Officer, which became effective on July 6, 2021, and which will be assumed by us following the Spin-Off. The offer letter provides Ms. Charbonnier with an annual base salary of \$615,000, prorated for 2021 based on Ms. Charbonnier's actual IBM start date and termination date during such year, a \$770,000 transaction bonus, a new hire equity PSU award of

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

\$1,000,000 in planned value, a sign-on equity retention restricted stock unit (“RRSU”) award of \$700,000 in planned value and a \$875,000 sign-on bonus.

Ms. Charbonnier’s transaction bonus will be paid no later than February 1, 2022, subject to the closing of the Spin-Off and Ms. Charbonnier remaining actively employed through the closing of the Spin-Off, although IBM, in its sole discretion, may decide to provide Ms. Charbonnier with a partial payment of \$200,000 if she is terminated without Cause (as defined below) prior to the closing of the Spin-Off. Although the Spin-Off is expected to occur prior to December 31, 2021, Ms. Charbonnier may still receive the transaction bonus if the Spin-Off is not complete by such date if (i) IBM’s Chief Executive Officer, in his sole discretion, decides to pay the bonus in full or in part prior to February 1, 2022 (provided Ms. Charbonnier is an active employee on the payment date) or (ii) the Spin-Off was not completed for reasons beyond Ms. Charbonnier’s reasonable control and her employment is terminated without Cause, payable by February 1, 2022. In addition, if prior to December 31, 2021, for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM’s Chief Executive Officer determines that (i) Ms. Charbonnier’s performance in moving the Spin-Off to closure was not a contributing factor in the decision to make such announcement or sale and (ii) Ms. Charbonnier’s performance is otherwise satisfactory, then Ms. Charbonnier will still receive the transaction bonus within one month after the later of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer, subject to Ms. Charbonnier’s continued employment through such announcement or closing, as applicable.

Ms. Charbonnier’s new hire PSU award was granted on August 1, 2021 and will become eligible to vest if (i) the Spin-Off is completed as envisioned by January 1, 2023 (i.e., as described in this Information Statement) and (ii) if the Spin-Off is completed as envisaged, immediately following the closing of the Spin-Off, Ms. Charbonnier accepts employment as our Chief Human Resources Officer. If the performance criteria are achieved, the PSU award vests 33% on the six-month anniversary of the Spin-Off closing date, 33% on the first anniversary of the Spin-Off closing date and 34% on the second anniversary of the Spin-Off closing date, subject to continued employment on such dates (except as provided below). In addition, if for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM’s Chief Executive Officer determines that such announcement or sale was not made as a result of Ms. Charbonnier’s performance in moving the Spin-Off to such closure, then Ms. Charbonnier will still be eligible to receive the PSUs on the six-month, first and second anniversaries of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer (in the case of a sale, also if Ms. Charbonnier was not selected to become our Chief Human Resources Officer or a substantially comparable role), as applicable. Furthermore, if Ms. Charbonnier’s employment is terminated without Cause prior to the Spin-Off or the sale to a third party, if the Spin-Off is completed and our offer of employment is not comparable in the aggregate to the terms of her offer letter (including with respect to annual salary, bonus and equity awards) or the Spin-Off is completed and her geographic location is greater than 50 miles from her work location, then Ms. Charbonnier will still be eligible to receive the PSUs on the six-month, first and second anniversaries of the termination date. If, other than by death or disability described below, the performance conditions are not met for any other reason by January 1, 2023, the PSUs will be canceled. Upon Ms. Charbonnier’s death or disability, the PSU award will remain eligible to vest in accordance with its terms and will vest if the Spin-Off does not occur as envisaged by January 1, 2023.

Ms. Charbonnier’s sign-on RRSU award was granted on August 1, 2021, will vest on the second anniversary of the grant date and will be converted upon the Spin-Off in a manner consistent with similar IBM awards. If Ms. Charbonnier’s employment is terminated without Cause prior to the second anniversary of the grant date, and her performance is otherwise satisfactory, Ms. Charbonnier will still be eligible to receive the RRSU award as scheduled. Upon Ms. Charbonnier’s death, the RRSU award will vest immediately, and upon Ms. Charbonnier’s disability, the RRSU award will remain eligible to vest as scheduled.

Ms. Charbonnier’s sign-on bonus will be paid within 60 days of her hire date, and must be repaid if Ms. Charbonnier’s employment with IBM, or us after the closing of the Spin-Off, ends within one year after her hire date. Ms. Charbonnier will not be required to repay her sign on bonus upon her termination of employment from IBM and us if: (i) IBM formally announces that it will not complete the Spin-Off, and IBM’s Chief Executive Officer determines that Ms. Charbonnier’s performance in moving the Spin-Off to closure was not a contributing factor in the decision not to complete the Spin-Off, and her performance was

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

otherwise satisfactory; (ii) we are purchased by another buyer, and (a) IBM’s Chief Executive Officer determines that Ms. Charbonnier’s performance was not a contributing factor in such decision and her performance was otherwise satisfactory and (b) Ms. Charbonnier is not selected for a substantially comparable in the aggregate role at the new company (including annual salary, bonus, equity awards and geographic location, which cannot be greater than 50 miles from her work location); or (iii) such termination was without Cause.

For purposes of Ms. Charbonnier’s offer letter, Cause has the same meaning as in Mr. Schroeter’s offer letter.

General Counsel. Mr. Sebold has not entered into an offer letter or employment agreement with us. As discussed above, although Mr. Sebold had previously been employed by IBM, we have not disclosed his historical IBM compensation information since we do not believe such disclosure would accurately reflect the compensation plans and philosophies that we intend to implement as a separate publicly traded company. While Mr. Sebold was employed by IBM prior to the Spin-Off, his executive role and compensation structure with us will differ in many respects from his most recent positions with IBM. We have adopted and will continue to develop our own compensation plan and program and anticipate that Mr. Sebold will be covered by these programs following the Spin-Off.

Mr. Sebold’s annual base salary is \$595,700, and Mr. Sebold is eligible to receive a transaction bonus equal to \$750,000 no later than February 1, 2022, subject to the successful completion of the Spin-Off by December 31, 2021 and Mr. Sebold remaining an active employee through such date. If the Spin-Off is not completed by December 31, 2021, IBM’s Chief Executive Officer may, in his discretion, decide to pay the bonus in full or in part, and such payment will be made no later than February 1, 2022, so long as Mr. Sebold is an active employee of IBM or Kyndryl on such payment date.

Mr. Sebold also received a PSU award on May 3, 2021, with a planned value of \$1,000,000. The PSU award will become eligible to vest upon: (i) successful completion of the Spin-Off as envisaged by no later than January 1, 2023, and (ii) immediately following the closing of the Spin-Off, Mr. Sebold accepts employment with us as General Counsel. If the performance criteria are achieved, the PSU award vests 33% on the six-month anniversary of the Spin-Off closing date, 33% on the first anniversary of the Spin-Off closing date and 34% on the second anniversary of the Spin-Off closing date. If, other than by death or disability described below, the performance conditions are not met for any other reason by January 1, 2023, the PSUs will be canceled. Upon Mr. Sebold’s death or disability, the PSU award will remain eligible to vest in accordance with its terms and will vest if the Spin-Off does not occur as envisaged by January 1, 2023.

2021 Long-Term Performance Plan

Prior to the Spin-Off, we expect our Board to adopt, and IBM, as our sole stockholder, to approve, the 2021 Long-Term Performance Plan of Kyndryl and its Affiliates (the “**Equity Plan**”) for the benefit of certain of our current and future employees. The following summary describes what we anticipate to be the material terms of the Equity Plan.

When approved by IBM, as our sole stockholder, and our Board, the full text of the Equity Plan will be filed with the Securities and Exchange Commission (the “**SEC**”), and the following discussion is qualified in its entirety by reference to such text.

Purpose of the Equity Plan

The Equity Plan will be designed to attract, motivate and retain certain of our employees and other individuals providing services to us. These objectives will be accomplished by making long-term incentives and other awards under the Equity Plan, thereby providing participants with a proprietary interest in our growth and performance.

Shares Available for Awards

If the Equity Plan is approved by IBM, as our sole stockholder, and our Board, it is expected that the maximum aggregate number of shares of our common stock that may be issued under all stock-based awards granted under the Equity Plan would be . In addition, it is expected that the Equity Plan

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Pursuant to 17 C.F.R. Section 200.83**

will contain a limit on the number of shares of our common stock available for grant in the form of incentive stock options and a limit on the maximum aggregate value of shares of our common stock that may be issued under all stock-based awards to nonemployee directors.

Under the Equity Plan, it is expected that we will have the flexibility to grant different types of equity compensation awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, cash awards and other awards based, in whole or in part, on the value of our common stock. The grant, vesting, exercise and settlement of awards granted under the Equity Plan may be subject to the satisfaction of time- or performance-based conditions, as determined at or after the date of grant of an award under the Equity Plan.

In the event of any change in corporate structure that affects our outstanding common stock (e.g., a cash or stock dividend, stock split, reverse stock split, spin-off, recapitalization, merger, reorganization etc.), our Compensation Committee will make adjustments that it deems equitable or appropriate, in its sole discretion, including adjustments to the share limits described above, the number and type of shares of our common stock subject to outstanding awards, or the purchase or exercise price of outstanding awards. In the case of any unusual or nonrecurring event (including events described in the preceding sentence) affecting us or changes in applicable laws, regulations, or accounting principles, our Compensation Committee may make adjustments to outstanding awards in order to prevent dilution or enlargement of the benefits intended to be provided under the Equity Plan.

In the event of any change in our outstanding capital stock by reason of a stock split, stock dividend, combination or reclassification of shares, recapitalization, merger, or similar event, it is expected that our Compensation Committee may adjust proportionately: (a) the number of shares of our common stock (i) available for issuance under the Equity Plan, (ii) available for issuance under incentive stock options, (iii) for which awards may be granted to an individual participant and (iv) covered by outstanding awards denominated in stock or units of stock; (b) the exercise and grant prices related to outstanding awards; and (c) the appropriate fair market value and other price determinations for such awards. Notwithstanding the foregoing, in the event of any change in our outstanding capital stock by reason of a stock split or a reverse stock split, the above-referenced proportionate adjustments, if applicable, will be mandatory. In the event of any other change affecting our capital stock or any distribution (other than normal cash dividends) to holders of our capital stock, such adjustments in the number and kind of shares and the exercise, grant and conversion prices of the affected awards as may be deemed equitable by our Compensation Committee, including adjustments to avoid fractional shares, will be made to give proper effect to such event.

It is expected that shares covered by awards that either wholly or in part are not earned, or that expire or are forfeited, terminated, canceled, settled in cash, payable solely in cash or exchanged for other awards, will be available for future issuance under awards. Further, shares tendered to or withheld by us in connection with the exercise of stock options, or the payment of tax withholding on any award, shall also be available for future issuance under awards.

Eligibility

It is expected that our non-employee directors, employees and employees of our affiliates would be eligible to receive awards under the Equity Plan.

Administration

It is expected that our Compensation Committee would have full power to select participants, to interpret the Equity Plan, to grant waivers of award restrictions, to continue, accelerate or suspend exercisability, vesting or payment of an award and to adopt such rules, regulations and guidelines for carrying out the Equity Plan as it may deem necessary or proper. These powers are expected to include, but would not be limited to, the adoption of modifications, amendments, procedures, subplans and the like as necessary to comply with provisions of the laws and regulations of the countries in which we operate in order to assure the viability of awards granted under the Equity Plan and to enable participants, regardless of where employed, to receive advantages and benefits under the Equity Plan and such laws and regulations. Our Compensation Committee would be able to delegate to our officers its duties, power and authority under the Equity Plan pursuant to such conditions or limitations as our Compensation Committee may establish, except that only our Compensation Committee or our Board would be able to select, and grant awards to, participants who are subject to Section 16 of the Exchange Act.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of the date of this Information Statement, IBM beneficially owns all of the outstanding shares of our common stock. After the Spin-Off, IBM will not own any shares of our common stock. The following table provides information regarding the anticipated beneficial ownership of our common stock at the time of the Distribution by:

- each of our directors;
- each of our named executive officers;
- all of our directors and executive officers as a group; and
- each of our stockholders whom we believe (based on the assumptions described below) will beneficially own more than 5% of our outstanding common stock.

Except as otherwise noted below, we based the share amounts on each person's beneficial ownership of IBM common stock on _____, giving effect to a Distribution ratio of _____ shares of our common stock for every _____ shares of IBM common stock.

Except as otherwise noted in the footnotes below, each person or entity identified in the table has sole voting and investment power with respect to the securities beneficially owned.

Immediately following the Spin-Off, we estimate that _____ shares of our common stock will be issued and outstanding, based on the approximately _____ shares of IBM common stock outstanding on _____. The actual number of shares of our common stock that will be outstanding following the completion of the Spin-Off will be determined on _____.

| | Amount and Nature of Beneficial Ownership | Percentage of Class |
|---|--|---------------------|
| Directors and Executive Officers | | |
| Martin Schroeter | | |
| Elly Keinan | | |
| Maryjo Charbonnier | | |
| Edward Sebold | | |
| Directors and Executive Officers as a group | | |
| Principal Stockholders: | | |
| The Vanguard Group ⁽¹⁾ | | |
| 100 Vanguard Blvd. | | |
| Malvern, PA 19355 | | |
| BlackRock, Inc. ⁽²⁾ | | |
| 55 East 52nd Street | | |
| New York, NY 10055 | | |
| State Street Financial Corporation ⁽³⁾ | | |
| State Street Financial Center | | |
| One Lincoln Street | | |
| Boston, MA 02111 | | |

* Less than 1%.

(1) Based on the Schedule 13G/A filed with the SEC on February 10, 2021 by The Vanguard Group and certain subsidiaries ("**Vanguard**") with respect to IBM common stock. Vanguard reported that it had sole

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Pursuant to 17 C.F.R. Section 200.83**

voting power over 1,453,904 shares of IBM common stock, shared voting power over 69,861,037 shares of common stock, sole dispositive power over 3,945,354 shares of IBM common stock, and shared dispositive power over 73,806,391 shares of IBM common stock.

- (2) Based on the Schedule 13G/A filed with the SEC on January 29, 2021 by BlackRock, Inc. and certain subsidiaries ("**BlackRock**") with respect to IBM common stock. BlackRock reported that it had sole voting power over 53,281,831 shares of IBM common stock and sole dispositive power over 62,271,273 shares of IBM common stock.
- (3) Based on the Schedule 13G/A filed with the SEC on February 12, 2021 by State Street Corporation and certain subsidiaries ("**State Street**") with respect to IBM common stock. State Street reported that it had shared voting power over 42,096,957 shares of common stock and shared dispositive power over 51,941,856 shares of IBM common stock.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**Agreements with IBM**

In order to govern the ongoing relationships between us and IBM after the Spin-Off and to facilitate an orderly transition, we and IBM intend to enter into agreements providing for various services and rights following the Spin-Off, and under which we and IBM will agree to indemnify each other against certain liabilities arising from our respective businesses. The following summarizes the terms of the material agreements we expect to enter into with IBM.

Separation and Distribution Agreement

We intend to enter into a Separation and Distribution Agreement with IBM before the Distribution. The Separation and Distribution Agreement will set forth our agreements with IBM regarding the principal actions to be taken in connection with the Spin-Off. It will also set forth other agreements that govern aspects of our relationship with IBM following the Spin-Off.

Transfer of Assets and Assumption of Liabilities

The Separation and Distribution Agreement will identify certain transfers of assets and assumptions of liabilities that are necessary in advance of our separation from IBM so that we and IBM retain the assets of, and the liabilities associated with, our respective businesses. The Separation and Distribution Agreement generally provides that the assets comprising our business will consist of those exclusively related to our current business and operations (except for intellectual property assets, which are allocated as further described in “— Agreements Governing Intellectual Property”) or otherwise allocated to the business through a process of dividing shared assets. The liabilities we will assume in connection with the Spin-Off will generally consist of those related to the assets comprising our business or to the past and future operations of our business, including our locations used in our current operations. The Separation and Distribution Agreement will also provide for the settlement or extinguishment of certain liabilities and other obligations between us and IBM.

Reorganization Transactions

The Separation and Distribution Agreement will describe certain actions related to our separation from IBM that will occur prior to the Distribution such as the formation of our subsidiaries and certain other internal restructuring actions to be taken by us and IBM, including the contribution by IBM to us of the assets and liabilities that comprise our business.

Intercompany Arrangements

All agreements, arrangements, commitments and understandings, including most intercompany accounts payable or accounts receivable, between us, on the one hand, and IBM, on the other hand, will terminate and/or be repaid effective as of the Distribution Date or shortly thereafter, except specified agreements and arrangements that are intended to survive the Distribution.

Credit Support

We will agree to use reasonable best efforts to arrange, on or prior to the Distribution, for the replacement of all guarantees, covenants, indemnities, surety bonds, letters of credit or similar assurances of credit support, other than certain specified credit support instruments, currently provided by or through IBM or any of its subsidiaries for the benefit of us or any of our subsidiaries.

Representations and Warranties

In general, neither we nor IBM will make any representations or warranties regarding any assets or liabilities transferred or assumed, any consents or approvals that may be required in connection with these transfers or assumptions, the value or freedom from any lien or other security interest of any assets transferred, the absence of any defenses relating to any claim of either party or the legal sufficiency of any conveyance

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

documents. Except as expressly set forth in the Separation and Distribution Agreement, all assets will be transferred on an “as-is,” “where-is” basis.

Further Assurances

The parties will use reasonable best efforts to effect any transfers contemplated by the Separation and Distribution Agreement that have not been consummated prior to the Distribution. In addition, the parties will use reasonable best efforts to effect any transfer or re-transfer of any asset or liability that was improperly transferred or retained.

The Distribution

The Separation and Distribution Agreement will govern IBM’s and our respective rights and obligations regarding the proposed Distribution. On or prior to the Distribution Date, IBM will deliver all of the issued and outstanding shares of our common stock held by IBM to the distribution agent. On or as soon as practicable following the Distribution Date, the distribution agent will electronically deliver all of the shares of our common stock previously held by IBM to IBM stockholders based on the distribution ratio. The IBM Board may, in its sole and absolute discretion, determine the Record Date, the Distribution Date and the terms of the Spin-Off. In addition, IBM may, at any time until the Distribution, decide to abandon the Distribution or modify or change the terms of the Distribution.

Conditions

The Separation and Distribution Agreement will also provide that several conditions must be satisfied or, to the extent permitted by law, waived by IBM, in its sole and absolute discretion, before the Distribution can occur. For further information about these conditions, see “The Spin-Off — Conditions to the Spin-Off.”

Exchange of Information

We and IBM will agree to provide each other with information reasonably necessary to comply with reporting, disclosure, filing or other requirements of any national securities exchange or governmental authority, for use in judicial, regulatory, administrative and other proceedings and to satisfy audit, accounting, litigation and other similar requests. We and IBM will also agree to use reasonable best efforts to retain such information in accordance with our respective record retention policies applicable to our own information or such longer period as required by law. Each party will also agree to use its reasonable best efforts to assist the other with its financial reporting and audit obligations.

Termination

The IBM Board, in its sole and absolute discretion, may terminate the Separation and Distribution Agreement at any time prior to the Distribution.

Release of Claims

We and IBM will each agree to release the other and its affiliates, successors and assigns, and all persons that prior to the Distribution have been the other’s stockholders, directors, officers, members, agents and employees, and their respective heirs, executors, administrators, successors and assigns, from any and all liabilities that such party is taking on in connection with the Spin-Off, whether at law or in equity (including any right of contribution), whether arising under any contract, by operation of law or otherwise, existing or arising from any acts or events occurring, or failing to occur, or alleged to have occurred, or to have failed to occur, or any conditions existing or alleged to have existed on or before the Distribution, including in connection with the Spin-Off and all other activities to implement the Spin-Off. These releases will be subject to exceptions set forth in the Separation and Distribution Agreement.

Indemnification

We and IBM will each agree to indemnify the other and each of the other’s current, former and future directors, officers and employees, and each of the heirs, executors, successors and assigns of any of them,

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

against certain liabilities incurred in connection with the Spin-Off and our and IBM's respective businesses. The amount of either IBM's or our indemnification obligations will be reduced by any net insurance proceeds the party being indemnified receives. The Separation and Distribution Agreement will also specify procedures regarding claims subject to indemnification.

Transition Services Agreement

We intend to enter into a Transition Services Agreement pursuant to which IBM will provide us with certain specified services for a limited time to ensure an orderly transition following the Distribution. The services IBM will provide predominately consist of information technology services, among others. The services are generally intended to be provided for a period no longer than two years following the Distribution. Each party may terminate the agreement in its entirety in the event of a material breach of the agreement by the other party that is not cured within a specified time period. We may also terminate the services on an individual basis upon prior written notice to IBM, provided that a partial termination of a service will require mutual agreement between us and IBM.

The Transition Services Agreement will provide for customary indemnification and limits on liability.

Given the short-term nature of the Transition Services Agreement, we are in the process of increasing our internal capabilities to eliminate reliance on IBM for the transition services it will provide us as quickly as possible following the Spin-Off.

Tax Matters Agreement

We intend to enter into a Tax Matters Agreement with IBM that will govern the respective rights, responsibilities and obligations of IBM and us after the Distribution with respect to all tax matters (including tax liabilities, tax attributes, tax returns and tax contests).

The Tax Matters Agreement will generally provide that we will be responsible and will indemnify IBM for all taxes, including income taxes, sales taxes, VAT and payroll taxes, relating to the Business for all periods following the Distribution; _____ will be responsible and will indemnify _____ for all taxes relating to the Business for all periods preceding the Distribution, except as otherwise provided in the Tax Matters Agreement. In addition, the Tax Matters Agreement will address the allocation of liability for taxes that are incurred as a result of restructuring activities undertaken to effectuate the Spin-Off.

In addition, the Tax Matters Agreement will provide that we will be required to indemnify IBM for any taxes (and reasonable expenses) resulting from the failure of the Spin-Off and related internal transactions to qualify for their intended tax treatment under U.S. federal, state and local income tax law, as well as foreign tax law, where such taxes result from (a) breaches of covenants and representations we make and agree to in connection with the Spin-Off, (b) the application of certain provisions of U.S. federal income tax law to the these transactions or (c) any other action or omission (other than actions expressly required or permitted by the Separation and Distribution Agreement, the Tax Matters Agreement or other ancillary agreements) we take after the Distribution that gives rise to these taxes. IBM will have the exclusive right to control the conduct of any audit or contest relating to these taxes, but we will have the right to review and comment on IBM's conduct of any such audit or contest, to the extent that we could be liable for taxes under the Tax Matters Agreement as a result of such audit or contest.

The Tax Matters Agreement will impose certain restrictions on us and our subsidiaries (including restrictions on share issuances, redemptions or repurchases, mergers or other business combinations, sales of assets and similar transactions) that will be designed to address compliance with Section 355 and related provisions of the Code, as well as state, local and foreign tax law, and are intended to preserve the tax-free nature of the Spin-Off and related transactions. Under the Tax Matters Agreement, these restrictions will apply for two years following the Distribution, unless IBM obtains a private letter ruling from the IRS or we obtain an opinion of counsel, in each case acceptable to IBM in its discretion, that the restricted action would not impact the non-recognition treatment of the Spin-Off or other transaction, or unless IBM otherwise gives its consent for us to take a restricted action in its discretion. Even if such a private letter ruling or opinion is obtained, or IBM does otherwise consent to our taking an otherwise restricted action, we will remain liable to indemnify IBM in the event such restricted action gives rise to an otherwise indemnifiable

liability. These restrictions may limit our ability to pursue strategic transactions or engage in new businesses or other transactions that may maximize the value of our business, and might discourage or delay a strategic transaction that our stockholders may consider favorable.

Employee Matters Agreement

We intend to enter into an Employee Matters Agreement with IBM that will address employment and employee compensation and benefits matters. The Employee Matters Agreement will address the allocation and treatment of assets and liabilities relating to employees and compensation and benefit plans and programs in which our employees participated prior to the Spin-Off. Except as specifically provided in the Employee Matters Agreement, we will generally be responsible for all employment and employee compensation and benefits-related liabilities relating to our employees, former employees and other service providers. In particular, we will assume certain assets and liabilities with respect to our current employees under certain of IBM's non-U.S. defined benefit pension plans (with assets and liabilities allocated based on formulas specified in the Employee Matters Agreement for each pension plan). Generally, except as may be provided in a transition services agreement, each of our employees will cease active participation in IBM compensation and benefit plans as of the Spin-Off. The Employee Matters Agreement also provides that we will establish certain compensation and benefit plans for the benefit of our employees following the Spin-Off, including a 401(k) savings plan, which will accept direct rollovers of account balances from the IBM 401(k) savings plan for any of our employees who elects to do so. Generally, following the Spin-Off, we will assume and be responsible for any annual bonus payments, including with respect to the year in which the Spin-Off occurs, and any other cash-based incentive or retention awards to our current and former employees. The Employee Matters Agreement incorporates the indemnification provisions contained in the Separation and Distribution Agreement. In addition, the Employee Matters Agreement provides that we will indemnify IBM for certain employee-related liabilities associated with the failure to establish benefit plans or in connection with joint-employer liability claims by our employees.

Agreements Governing Intellectual Property

Allocation of Intellectual Property

The agreements we will enter into with IBM governing intellectual property will provide for (i) us to own certain specified patents and patent applications, trademarks, domain names, copyrights in proprietary software and documentation, database rights and certain other intellectual property rights solely developed by or exclusively related to the Business and (ii) IBM to retain any of its other intellectual property rights related to the Business. Intellectual property rights will generally be allocated to us if those rights were solely developed by the Business (including with respect to software, database rights and certain other technologies) or are exclusively related to the Business. Any intellectual property and technologies that are not allocated to us will be retained by IBM.

Intellectual Property Agreement

We intend to enter into an Intellectual Property Agreement with IBM, pursuant to which IBM will grant to us perpetual and irrevocable, non-exclusive, royalty-free licenses to certain proprietary software and documentation, databases, trade secrets, and certain other intellectual property rights (excluding patents and trademarks) that are used in the Business but are being retained by IBM. The foregoing license excludes IBM's commercial software, which will be subject to IBM's standard commercial terms if we choose to use it in the Business. Additionally, we will grant to IBM perpetual and irrevocable, non-exclusive, royalty-free licenses to certain proprietary software and documentation, databases, trade secrets, and certain other intellectual property rights (excluding patents and trademarks) that are allocated to us (other than certain restricted software, databases and research assets, to which IBM will be granted limited or no rights).

The field of use for the licenses granted to us will generally be the Business as conducted immediately prior to the Spin-Off, with natural extensions and evolutions. The field of use for the licenses granted to IBM will generally be all businesses, operations, products and services. The licenses will generally be transferable with any sale or transfer of an entity or line of business that utilizes the relevant intellectual property, and the transferred license will be limited to the business, products and services as conducted by the transferred entity or line of business as of the date of the transfer, with natural extensions and evolutions.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

In addition, pursuant to the Intellectual Property Agreement, we will be permitted to continue using certain of IBM's trademarks, trade names and service marks with respect to the "IBM" brands in connection with certain limited transitional uses. The permitted transitional use will generally not exceed one to two years. The Intellectual Property Agreement will also provide that we will use commercially reasonable efforts to cease using such IBM trademarks as soon as reasonably practicable.

Other Intellectual Property Arrangements

We intend to enter into a patent cross license agreement with IBM, pursuant to which we will grant to IBM, and IBM will grant to us, a non-exclusive, worldwide, fully paid-up license to our respective patent portfolios as of the Spin-Off. The license will continue until the expiration of the last to expire of the licensed patents, unless earlier terminated (as described below). IBM will also separately be licensed under any patents issuing from applications we file based on invention disclosures assigned to us in the Spin-Off.

The field of our license to IBM's patent portfolio will generally cover information handling systems (subject to certain exclusions related to quantum systems, IBM's System z servers, integrated circuits and semiconductor fabrication) and the performance of services, including services for information handling systems. The field of IBM's license to our patent portfolio will generally cover information handling systems and the performance of services, including services for information handling systems. Both licenses will include certain rights to extend new licenses to divested entities or in connection with divested product or service lines, subject to certain limitations on the volume of licensed products and services under the new license and rights of the licensor party to terminate the new license if the counterparty asserts any patent infringement claim against the licensor, its subsidiaries or any of their customers or distributors. In addition, such new license does not include the right to engage in further divestitures. The licenses under the patent cross license agreement are also transferable if a party is acquired and becomes a subsidiary of a third party, but the transferred license is limited to only licensed products and services of the acquired party immediately prior to the acquisition and may also be terminated by the non-acquired party if the acquirer or its affiliates asserts any claim of patent infringement against the acquired party, its subsidiaries or their respective customers or distributors. If either party to the patent cross license agreement is acquired by a third party such that it is no longer a separate legal entity, the license to that party will terminate as of the date of such acquisition.

In addition, we will be granted licenses under certain of IBM's patent cross-license agreements with third parties that have been identified as being relevant to the Business, and IBM will work together with us to extend us rights under these agreements to the extent permitted thereunder.

We also intend to enter into a research master collaboration agreement with IBM, setting forth the general terms and conditions applicable to certain, to be determined, joint research projects between us and IBM's Research Division.

Other Arrangements

We intend to enter into a number of commercial agreements with IBM on arm's length terms, pursuant to which (i) we will purchase from IBM its branded and related hardware, software, and services for use in the delivery of services arrangements with our customers and (ii) we will provide services to IBM, including related to hosting data centers and servicing IBM's information infrastructure. We have historically incurred costs (including their associated depreciation and amortization) for our purchases of IBM's branded and related hardware, software, and services of \$3,227 million, \$3,094 million, and \$3,619 million for the years ended December 31, 2020, 2019 and 2018, respectively, and received revenue for the services we provided to IBM of \$645 million, \$613 million and \$623 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Policy and Procedures Governing Related Party Transactions

Prior to the completion of the Spin-Off, our Board will adopt a written policy regarding the review and approval of transactions with related persons. We anticipate that this policy will provide that our independent directors as a group or a committee comprised solely of independent directors review each of our transactions in which any "related person" had, has or will have a direct or indirect material interest, subject to certain specified exceptions. In general, "related persons" are our directors, director nominees, executive officers and stockholders beneficially owning more than 5% of our outstanding common stock and immediate family members or certain other designated persons.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE SPIN-OFF**Consequences to U.S. Holders of IBM Common Stock**

The following is a summary of the material U.S. federal income tax consequences to holders of IBM common stock in connection with the Distribution. This summary is based on the Code, the Treasury Regulations promulgated under the Code and judicial and administrative interpretations of those laws, in each case as in effect and available as of the date of this Information Statement and all of which are subject to change at any time, possibly with retroactive effect. Any such change could affect the tax consequences described below.

This summary is limited to holders of IBM common stock that are U.S. Holders, as defined immediately below, that hold their IBM common stock as a capital asset. A "U.S. Holder" is a beneficial owner of IBM common stock that is, for U.S. federal income tax purposes:

- an individual who is a citizen or a resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary jurisdiction over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (2) in the case of a trust that was treated as a domestic trust under law in effect before 1997, a valid election is in place under applicable Treasury Regulations.

This summary is for general information only and is not tax advice. It does not discuss all tax considerations that may be relevant to stockholders in light of their particular circumstances, nor does it address the consequences to stockholders subject to special treatment under the U.S. federal income tax laws, such as:

- dealers or traders in securities or currencies;
- tax-exempt entities;
- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- persons who acquired IBM common stock pursuant to the exercise of employee stock options or otherwise as compensation;
- stockholders who own, or are deemed to own, 10% or more, by voting power or value, of IBM equity;
- stockholders owning IBM common stock as part of a position in a straddle or as part of a hedging, conversion, synthetic security, integrated investment, constructive sale transaction or other risk reduction transaction for U.S. federal income tax purposes;
- persons who are subject to the alternative minimum tax;
- persons whose functional currency is not the U.S. Dollar;
- certain former citizens or long-term residents of the United States;
- persons who are subject to special accounting rules under Section 451(b) of the Code;
- persons who own IBM common stock through partnerships or other pass-through entities; or
- persons who hold IBM common stock through a tax-qualified retirement plan.

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Pursuant to 17 C.F.R. Section 200.83**

This summary is not a complete analysis or description of all potential U.S. federal income tax consequences of the Distribution. It does not address any tax consequences arising under the Medicare tax on net investment income or the Foreign Account Tax Compliance Act (including the Treasury Regulations promulgated thereunder and intergovernmental agreements entered into pursuant thereto or in connection therewith). In addition, it does not address any U.S. state or local or foreign tax consequences or any estate, gift or other non-income tax consequences of the Distribution.

If a partnership, or any other entity treated as a partnership for U.S. federal income tax purposes, holds IBM common stock, the tax treatment of a partner in that partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership is urged to consult its own tax advisor as to its tax consequences.

EACH HOLDER OF IBM COMMON STOCK IS URGED TO CONSULT ITS OWN TAX ADVISOR WITH RESPECT TO THE U.S. FEDERAL, STATE AND LOCAL AND FOREIGN TAX CONSEQUENCES OF THE DISTRIBUTION.

General

Completion of the Spin-Off is conditioned upon IBM's receipt of a written opinion from Paul, Weiss, Rifkind, Wharton & Garrison LLP, counsel to IBM, to the effect that the Distribution will qualify for nonrecognition of gain or loss under Section 355 and related provisions of the Code. The opinion will be based on the assumption that, among other things, the representations made, and information submitted, in connection with it are accurate. If the Distribution qualifies for this treatment and subject to the qualifications and limitations set forth herein (including the discussion below relating to the receipt of cash in lieu of fractional shares), for U.S. federal income tax purposes:

- no gain or loss will be recognized by, or be includible in the income of, a U.S. Holder as a result of the Distribution, except with respect to any cash received in lieu of fractional shares;
- the aggregate tax basis of the IBM common stock and our common stock held by each U.S. Holder immediately after the Distribution will be the same as the aggregate tax basis of the IBM common stock held by the U.S. Holder immediately before the Distribution, allocated between the IBM common stock and our common stock in proportion to their relative fair market values on the date of the Distribution (subject to reduction upon the deemed sale of any fractional shares, as described below); and
- the holding period of our common stock received by each U.S. Holder will include the holding period of their IBM common stock, provided that such IBM common stock is held as a capital asset on the date of the Distribution.

U.S. Holders that have acquired different blocks of IBM common stock at different times or at different prices are urged to consult their tax advisors regarding the allocation of their aggregate adjusted tax basis among, and the holding period of, shares of our common stock distributed with respect to such blocks of IBM common stock.

The opinion of counsel will not address any U.S. state or local or foreign tax consequences of the Spin-Off. The opinion will assume that the Spin-Off will be completed according to the terms of the Separation and Distribution Agreement and will rely on the facts as stated in the Separation and Distribution Agreement, the Tax Matters Agreement, the other ancillary agreements, this Information Statement and a number of other documents. In addition, the opinion will be based on certain representations as to factual matters from, and certain covenants by, IBM and us. The opinion cannot be relied on if any of the assumptions, representations or covenants is incorrect, incomplete or inaccurate or are violated in any material respect.

The opinion of counsel will not be binding on the IRS or the courts, and there can be no assurance that the IRS or a court will not take a contrary position. If the conclusions expressed in the opinion are challenged by the IRS, and if the IRS prevails in such challenge, the tax consequences of the Spin-Off could be materially less favorable.

If the Distribution were determined not to qualify for non-recognition of gain or loss, the above consequences would not apply and each U.S. Holder who receives our common stock in the Distribution

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Pursuant to 17 C.F.R. Section 200.83**

would generally be treated as receiving a distribution in an amount equal to the fair market value of our common stock received, which would generally result in:

- a taxable dividend to the U.S. Holder to the extent of that U.S. Holder's pro rata share of IBM's current or accumulated earnings and profits;
- a reduction in the U.S. Holder's basis (but not below zero) in IBM common stock to the extent the amount received exceeds the stockholder's share of IBM's earnings and profits; and
- a taxable gain from the exchange of IBM common stock to the extent the amount received exceeds the sum of the U.S. Holder's share of IBM's earnings and profits and the U.S. Holder's basis in its IBM common stock.

Cash in Lieu of Fractional Shares

If a U.S. Holder receives cash in lieu of a fractional share of common stock as part of the Distribution, the U.S. Holder will be treated as though it first received a distribution of the fractional share in the Distribution and then sold it for the amount of cash actually received. Provided the fractional share is considered to be held as a capital asset on the date of the Distribution, the U.S. Holder will generally recognize capital gain or loss measured by the difference between the cash received for such fractional share and the U.S. Holder's tax basis in that fractional share, as determined above. Such capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period for the IBM common stock is more than one year on the date of the Distribution.

Payments of cash to U.S. Holders of IBM common stock in lieu of fractional shares of our common stock may be subject to information reporting and backup withholding (currently, at a rate of 24 percent), unless such U.S. Holder delivers a properly completed IRS Form W-9 certifying such U.S. Holder's correct taxpayer identification number and certain other information, or otherwise establishes an exemption from backup withholding. Corporations will generally be exempt from backup withholding, but may be required to provide a certification to establish their entitlement to the exemption. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be refunded or credited against a U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

Information Reporting

Treasury Regulations require each IBM stockholder that, immediately before the Distribution, owned 5% or more (by vote or value) of the total outstanding stock of IBM or stockholders whose basis in their IBM common stock equals or exceeds \$1,000,000 to attach to such stockholder's U.S. federal income tax return for the year in which the Distribution occurs a statement setting forth certain information related to the Distribution.

Consequences to IBM

The following is a summary of the material U.S. federal income tax consequences to IBM in connection with the Spin-Off that may be relevant to holders of IBM common stock.

As discussed above, completion of the Spin-Off is conditioned upon IBM's receipt of separate a written opinion from Paul, Weiss, Rifkind, Wharton & Garrison LLP, counsel to IBM, to the effect that the Distribution will qualify for nonrecognition of gain or loss under Section 355 and related provisions of the Code. If the Distribution qualifies for nonrecognition of gain or loss under Section 355 and related provisions of the Code, no gain or loss will be recognized by IBM as a result of the Distribution (other than income or gain arising from any imputed income or other adjustment to IBM, us or our respective subsidiaries if and to the extent that the Separation and Distribution Agreement or any ancillary agreement is determined to have terms that are not at arm's length). The opinion of counsel is subject to the qualifications and limitations as are set forth above under "— Consequences to U.S. Holders of IBM Common Stock."

If the Distribution were determined not to qualify for non-recognition of gain or loss under Section 355 and related provisions of the Code, then IBM would recognize gain equal to the excess of the fair market value of our common stock distributed to IBM stockholders over IBM's tax basis in our common stock.

Indemnification Obligation

If, as a result of any of our representations being untrue or our covenants being breached, the Spin-Off were determined not to qualify for non-recognition of gain or loss under Section 355 and related provisions of the Code, we could be required to indemnify IBM for the resulting taxes and related expenses. In addition, if we or our stockholders were to engage in transactions that resulted in a 50% or greater change by vote or value in the ownership of our stock during the four-year period beginning on the date that begins two years before the date of the Distribution, the Spin-Off would generally be taxable to IBM, but not to stockholders, under Section 355(e) of the Code, unless it were established that such transactions and the Spin-Off were not part of a plan or series of related transactions. If the Spin-Off were taxable to IBM due to such a 50% or greater change in ownership of our stock, IBM would recognize gain equal to the excess of the fair market value of our common stock distributed to IBM stockholders over IBM's tax basis in our common stock and we generally would be required to indemnify IBM for the tax on such gain and related expenses. In addition, we will be liable to indemnify IBM if, as a result of any of representations being untrue or our covenants being breached, transactions related to the Spin-Off that were intended to be tax-free under U.S. or foreign law, are determined instead to be taxable to IBM.

DESCRIPTION OF OUR CAPITAL STOCK**General**

Prior to the Distribution, IBM, as our sole stockholder, will approve and adopt our Amended and Restated Certificate of Incorporation, and our Board will approve and adopt our Amended and Restated By-Laws. The following summarizes information concerning our capital stock, including material provisions of our Amended and Restated Certificate of Incorporation, our Amended and Restated By-Laws and certain provisions of Delaware law. You are encouraged to read the forms of our Amended and Restated Certificate of Incorporation and our Amended and Restated By-Laws, which are filed as exhibits to our Registration Statement on Form 10, of which this Information Statement is a part, for greater detail with respect to these provisions.

Distribution of Securities

During the past three years, we have not sold any securities, including sales of reacquired securities, new issues, securities issued in exchange for property, services or other securities, and new securities resulting from the modification of outstanding securities that were not registered under the Securities Act.

Authorized Capital Stock

Immediately following the Spin-Off, our authorized capital stock will consist of _____ shares of common stock, par value \$0.01 per share, and _____ shares of preferred stock, par value \$0.01 per share.

Common Stock**Shares Outstanding**

Immediately following the Spin-Off, we estimate that approximately _____ shares of our common stock will be issued and outstanding, based on _____ shares of IBM common stock outstanding as of _____. The actual number of shares of our common stock outstanding immediately following the Spin-Off will depend on the actual number of shares of IBM common stock outstanding on the Record Date, and will reflect any issuance of new shares or exercise of outstanding options pursuant to IBM's equity plans and any repurchases of IBM shares by IBM pursuant to its common stock repurchase program, in each case on or prior to the Record Date.

Dividends

Holders of shares of our common stock will be entitled to receive dividends when, as and if declared by our Board at its discretion out of funds legally available for that purpose, subject to the preferential rights of any preferred stock that may be outstanding. The timing, declaration, amount and payment of future dividends will depend on our financial condition, earnings, capital requirements and debt service obligations, as well as legal requirements, regulatory constraints, industry practice and other factors that our Board deems relevant. Additionally, the terms of the indebtedness we intend to incur in connection with the Spin-Off and our obligations under the Indemnification and Reimbursement Agreement each will limit our ability to pay cash dividends. Our Board will make all decisions regarding our payment of dividends from time to time in accordance with applicable law. See "Dividend Policy."

Voting Rights

The holders of our common stock will be entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders.

Other Rights

Subject to the preferential liquidation rights of any preferred stock that may be outstanding, upon our liquidation, dissolution or winding-up, the holders of our common stock will be entitled to share ratably in our assets legally available for distribution to our stockholders.

Fully Paid

The issued and outstanding shares of our common stock are fully paid and non-assessable. Any additional shares of common stock that we may issue in the future will also be fully paid and non-assessable. The holders of our common stock will not have preemptive rights or preferential rights to subscribe for shares of our capital stock.

Preferred Stock

Our Amended and Restated Certificate of Incorporation will authorize our Board to designate and issue from time to time one or more series of preferred stock without stockholder approval. Our Board may fix and determine the preferences, limitations and relative rights of each series of preferred stock. There are no present plans to issue any shares of preferred stock.

Certain Provisions of Delaware Law, Our Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws***Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws***

Certain provisions in our proposed Amended and Restated Certificate of Incorporation and our proposed Amended and Restated By-Laws summarized below may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider to be in its best interests, including attempts that might result in a premium being paid over the market price for the shares held by stockholders. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our Board and in the policies formulated by our Board and to discourage certain types of transactions that may involve an actual or threatened change of control.

- *Classified Board.* Our Amended and Restated Certificate of Incorporation will provide that, until the conclusion of the 2027 annual meeting, our Board will be divided into three classes, with each class consisting, as nearly as may be possible, of one-third of the total number of directors. The directors designated as Class I directors will have terms expiring at the first annual meeting of stockholders following the Distribution, which we expect to hold in 2022. The directors designated as Class II directors will have terms expiring at the following year's annual meeting, which we expect to hold in 2023, and the directors designated as Class III directors will have terms expiring at the following year's annual meeting, which we expect to hold in 2024. Beginning at the 2025 annual meeting and at each annual meeting thereafter, all of our directors up for election at such meeting will be elected annually and will hold office until the next annual meeting and at until his or her successor has been duly elected and qualified or until his or her earlier resignation or removal. Effective as of the conclusion of the 2027 annual meeting, our Board will therefore no longer be divided into three classes. Before our Board is declassified, it would take at least two elections of directors for any individual or group to gain control of our Board. Accordingly, while the classified board is in effect, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to control us.
- *Removal.* Our Amended and Restated Certificate of Incorporation will provide that (i) prior to our Board being declassified as discussed above, our stockholders may remove directors only for cause and (ii) after our Board has been fully declassified, our stockholders may remove directors with or without cause. Removal will require the affirmative vote of holders of at least a majority of our voting stock.
- *Vacancies.* Our Amended and Restated By-Laws will provide that any vacancies created on the Board for any reason, including resulting from any increase in the authorized number of directors or the death, resignation, disqualification or removal from office of any director, will be filled exclusively by a majority of the directors then in office, even if less than a quorum, or by the sole remaining director. Any director elected to fill a vacancy on our Board will hold office until the expiration of the term of office of the director he or she replaced or until his or her successor is duly elected and qualified.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

- *Blank Check Preferred Stock.* Our Amended and Restated Certificate of Incorporation will authorize our Board to designate and issue, without any further vote or action by the stockholders, up to _____ shares of preferred stock from time to time in one or more series and, with respect to each such series, to fix the number of shares constituting the series and the designation of the series, the voting powers (if any) of the shares of the series, and the preferences and relative, participating, optional and other rights, if any, and any qualifications, limitations or restrictions, of the shares of such series. The ability to issue such preferred stock could discourage potential acquisition proposals and could delay or prevent a change in control.
- *No Stockholder Action by Written Consent.* Our Amended and Restated Certificate of Incorporation will expressly exclude the right of our stockholders to act by written consent. Stockholder action must take place at an annual meeting or at a special meeting of our stockholders.
- *Special Stockholder Meetings.* Our Amended and Restated Certificate of Incorporation and our Amended and Restated By-Laws will provide that holders of at least 25% of our outstanding shares or our Board, will be able to call a special meeting of stockholders.
- *Requirements for Advance Notification of Stockholder Nominations and Proposals.* Under our Amended and Restated By-Laws, stockholders of record will be able to nominate persons for election to our Board or bring other business constituting a proper matter for stockholder action only by providing proper notice to our Secretary. In the case of annual meetings, proper notice must be given, generally between 90 and 120 days prior to the first anniversary of the prior year's annual meeting as first specified in the notice of meeting provided, however, that if (A) the annual meeting is advanced by more than 30 days, or delayed by more than 60 days, from the first anniversary of the prior year's annual meeting or (B) no annual meeting was held during the prior year, the notice by the stockholder to be timely must be received (1) no earlier than 120 days before such annual meeting and (2) no later than the later of 90 days before such annual meeting and the tenth day after the day on which the notice of such annual meeting was first made by mail or public disclosure. In the case of special meetings, proper notice must be given no earlier than the 120th day prior to the relevant meeting and no later than the later of the 90th day prior to such meeting or the 10th day following the public announcement of the meeting. Such notice must include, among other information, certain information with respect to each stockholder nominating persons for election to the Board (including, the name and address, the number of shares directly or indirectly held by such stockholder, a description of any agreement with respect to the business to be brought before the annual meeting, a description of any derivative instruments based on or linked to the value of or return on our securities as of the date of the notice, a description of any proxy, contract or other relationship pursuant to which such stockholder has a right to vote any shares of our stock and any profit-sharing or performance-related fees that such stockholder is entitled to, based on any increase or decrease in the value of our securities, as of the date of such notice), a representation that such stockholder is a holder of record of our common stock as of the date of the notice, each stockholder nominee's written consent to being named as a nominee and to serving as a director if elected, completed questionnaire and representation that such person has not and will not give any commitment as to how such person will act or vote if elected as a director, become a party to any agreement with respect to any compensation, reimbursement or indemnification in connection with service as a director, and such person will comply with all policies applicable to directors, a description of all compensation and other monetary agreements during the past three years and a representation as to whether such stockholder intends to solicit proxies.
- *Proxy Access.* Our Amended and Restated By-Laws will allow one or more stockholders (up to 20, collectively), owning at least 3% of our outstanding shares continuously for at least three years, to nominate for election to our Board and to be included in our proxy materials up to the greater of two individuals or 20% of our Board, only by sending proper notice to our Secretary.
- *Cumulative Voting.* The DGCL provides that stockholders are denied the right to cumulate votes in the election of directors unless the Company's certificate of incorporation provides otherwise. Our Amended and Restated Certificate of Incorporation will not provide for cumulative voting.
- *Amendments to Certificate of Incorporation and By-Laws.* The DGCL provides that the affirmative vote of holders of a majority of a company's voting stock then outstanding is required to amend the

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Pursuant to 17 C.F.R. Section 200.83**

Company's certificate of incorporation unless the Company's certificate of incorporation provides a higher threshold, and our Amended and Restated Certificate of Incorporation will not provide for a higher threshold. Our Amended and Restated Certificate of Incorporation will provide that our Amended and Restated By-Laws may be amended by our Board or by the affirmative vote of holders of at least a majority of our voting stock.

Delaware Takeover Statute

We are subject to Section 203 of the DGCL, which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder.

Limitation on Liability of Directors and Indemnification of Directors and Officers

Delaware law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors, and our Amended and Restated Certificate of Incorporation will include such an exculpation provision. Our Amended and Restated By-Laws and Amended and Restated Certificate of Incorporation will include provisions that indemnify, to the fullest extent allowable under the DGCL, the personal liability of directors or officers for monetary damages for actions taken as a director, officer or agent of Kyndryl, or for serving at our request as a director, officer, employee or agent at another corporation or enterprise, as the case may be. Our Amended and Restated By-Laws and Amended and Restated Certificate of Incorporation will also provide that we must indemnify and advance reasonable expenses to our directors, officers and employees, subject to our receipt of an undertaking from the indemnified party as may be required under the DGCL.

The limitation of liability and indemnification provisions that will be included in our Amended and Restated By-Laws and Amended and Restated Certificate of Incorporation may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against our directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. However, these provisions will not limit or eliminate our rights, or those of any stockholder, to seek non-monetary relief such as injunction or rescission in the event of a breach of a director's duty of care. The provisions will not alter the liability of directors under the federal securities laws. In addition, your investment may be adversely affected to the extent that, in a class action or direct suit, we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. There is currently no pending material litigation or proceeding against any of our directors, officers or employees for which indemnification is sought.

Exclusive Forum

Our Amended and Restated Certificate of Incorporation will provide, in all cases to the fullest extent permitted by law, that unless we consent in writing to the selection of an alternative forum, the Court of Chancery located within the State of Delaware will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of us, any action asserting a claim of breach of a fiduciary duty owed by any director, officer, agent, employee or stockholder of Kyndryl to us or our stockholders, any action asserting a claim arising pursuant to the DGCL or as to which the DGCL confers jurisdiction on the Court of Chancery located in the State of Delaware, any action asserting a claim governed by the internal affairs doctrine, or any action asserting a claim arising under the DGCL, our Amended and Restated Certificate of Incorporation or our Amended and Restated By-Laws. However, if the Court of Chancery within the State of Delaware does not have jurisdiction, the action may be brought in the United States District Court for the District of Delaware. Additionally, our Amended and Restated Certificate of Incorporation will state that the foregoing provision will not apply to claims arising under the Securities Act. Unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. The exclusive forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers or stockholders,

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Pursuant to 17 C.F.R. Section 200.83**

which may discourage lawsuits with respect to such claims. Our stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder as a result of our exclusive forum provisions.

Sale of Unregistered Securities

On December 4, 2020, we issued 1,000 shares of our common stock to IBM pursuant to Section 4(a)(2) of the Securities Act. We did not register the issuance of the issued shares under the Securities Act because such issuance did not constitute a public offering.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock will be _____ .

Listing

We intend to apply to list our common stock on the _____ , under the ticker symbol “ _____ .”

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Pursuant to 17 C.F.R. Section 200.83**

WHERE YOU CAN FIND MORE INFORMATION

We have filed a Registration Statement on Form 10 with the SEC with respect to the shares of our common stock that IBM's stockholders will receive in the Distribution as contemplated by this Information Statement. This Information Statement is a part of, and does not contain all the information set forth in, the Registration Statement and the other exhibits and schedules to the Registration Statement. For further information with respect to us and our common stock, please refer to the Registration Statement, including its other exhibits and schedules. Statements we make in this Information Statement relating to any contract or other document are not necessarily complete, and you should refer to the exhibits attached to the Registration Statement for copies of the actual contract or document. You may review a copy of the Registration Statement, including its exhibits and schedules, on the Internet website maintained by the SEC at www.sec.gov. Information contained on any website we refer to in this Information Statement does not and will not constitute a part of this Information Statement or the Registration Statement on Form 10 of which this Information Statement is a part.

As a result of the Spin-Off, we will become subject to the information and reporting requirements of the Exchange Act and, in accordance with the Exchange Act, we will file periodic reports, proxy statements and other information with the SEC.

You may request a copy of any of our filings with the SEC at no cost by writing us at the following address:

We intend to furnish holders of our common stock with annual reports containing financial statements prepared in accordance with U.S. GAAP and audited and reported on by an independent registered public accounting firm.

INDEX TO COMBINED FINANCIAL STATEMENTS

Audited Combined Financial Statements

| | |
|--|-----|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Combined Income Statement for the Years Ended December 31, 2020, 2019 and 2018 | F-4 |
| Combined Statement of Comprehensive Income for the Years Ended December 31, 2020, 2019 and 2018 | F-5 |
| Combined Balance Sheet at December 31, 2020 and 2019 | F-6 |
| Combined Statement of Cash Flows for the Years Ended December 31, 2020, 2019 and 2018 | F-7 |
| Combined Statement of Equity for the Years Ended December 31, 2020, 2019 and 2018 | F-8 |
| Notes to Combined Financial Statements | F-9 |
| Schedule II — Valuation and Qualifying Accounts for the Years Ended December 31, 2020, 2019 and 2018 | S-1 |

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of International Business Machines Corporation:

Opinion on the Financial Statements

We have audited the accompanying combined balance sheet of Kyndryl (the managed infrastructure services business of IBM) (the “Company”) as of December 31, 2020 and 2019, and the related combined statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2020, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “combined financial statements”). In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note B to the combined financial statements, the Company changed the manner in which it accounts for leases in 2019 and the manner in which it accounts for revenue from contracts with customers in 2018.

Basis for Opinion

These combined financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s combined financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these combined financial statements in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the combined financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the combined financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the combined financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the combined financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill Impairment Assessment

As described in Note H to the combined financial statements, the Company’s goodwill balance was \$1,230 million as of December 31, 2020. As disclosed by management, goodwill is reviewed for impairment annually, or whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable by first assessing qualitative factors to determine if it is more likely than not that fair value

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Pursuant to 17 C.F.R. Section 200.83**

is less than carrying value. Management assesses qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. The quantitative test is required only if management concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount. Fair value is estimated by management using a discounted cash flow model. Management's cash flow projections for the reporting unit with less significant headroom (the "Reporting Unit"), included significant judgments and assumptions relating to projected EBITDA margins and the discount rate. Management evaluated goodwill for impairment for all reporting units for all periods presented which resulted in no impairment.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment for the Reporting Unit is a critical audit matter are (i) the significant judgment by management when developing the fair value measurement of the Reporting Unit; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to the projected EBITDA margins and the discount rate; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the combined financial statements. These procedures included, among others, (i) testing management's process for developing the fair value estimate of the Reporting Unit, (ii) evaluating the appropriateness of the discounted cash flow model; (iii) testing the completeness and accuracy of underlying data used in the model; and (iv) evaluating the reasonableness of the significant assumptions used by management related to the projected EBITDA margins and the discount rate. Evaluating management's assumptions related to the projected EBITDA margins involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the Reporting Unit; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's discounted cash flow model and the discount rate assumption.

PricewaterhouseCoopers LLP (signed)

New York, New York

June 22, 2021

We have served as the Company's auditor since 2020.

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Pursuant to 17 C.F.R. Section 200.83

KYNDRYL
COMBINED INCOME STATEMENT

| (\$ in millions) | | | | |
|---|-------|-------------------|-----------------|-----------------|
| For the year ended December 31: | Notes | 2020 | 2019 | 2018 |
| Revenues (related party revenue of \$645 in 2020, \$613 in 2019 and \$623 in 2018) | C | \$19,352 | \$20,279 | \$21,796 |
| Cost of services (related party cost of \$3,767 in 2020, \$3,592 in 2019 and \$4,112 in 2018) | C | \$17,143 | \$17,682 | \$19,238 |
| Selling, general and administrative | | 2,893 | 2,887 | 2,924 |
| Workforce rebalancing charges | | 918 | 159 | 116 |
| Research, development and engineering | | 76 | 83 | 69 |
| Interest expense | I | 63 | 76 | 85 |
| Other (income) and expense | | 25 | (29) | (7) |
| Total costs and expenses | | <u>\$21,118</u> | <u>\$20,858</u> | <u>\$22,425</u> |
| Income/(loss) before income taxes | | \$ (1,766) | \$ (579) | \$ (630) |
| Provision for income taxes | E | \$ 246 | \$ 364 | \$ 350 |
| Net income/(loss) | | <u>\$ (2,011)</u> | <u>\$ (943)</u> | <u>\$ (980)</u> |

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

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Pursuant to 17 C.F.R. Section 200.83

KYNDRYL
COMBINED STATEMENT OF COMPREHENSIVE INCOME

| (\$ in millions) | | | | |
|--|-------|--------------------------|------------------------|--------------------------|
| For the year ended December 31: | Notes | 2020 | 2019 | 2018 |
| Net income/(loss) | | <u>\$ (2,011)</u> | <u>\$ (943)</u> | <u>\$ (980)</u> |
| Other comprehensive income/(loss), before tax: | | | | |
| Foreign currency translation adjustments | L | 125 | 12 | (240) |
| Retirement-related benefit plans | L | | | |
| Prior service costs/(credits) | | 0 | (1) | 1 |
| Net (losses)/gains arising during the period | | (41) | (84) | (33) |
| Curtailments and settlements | | 0 | 0 | — |
| Amortization of prior service (credits)/cost | | (1) | 0 | (1) |
| Amortization of net (gains)/losses | | 36 | 27 | 28 |
| Total retirement-related benefit plans | | <u>(6)</u> | <u>(57)</u> | <u>(4)</u> |
| Other comprehensive income/(loss), before tax: | L | 119 | (45) | (244) |
| Income tax (expense)/benefit related to items of other comprehensive income | L | 2 | 18 | 2 |
| Other comprehensive income/(loss) | L | <u>121</u> | <u>(27)</u> | <u>(243)</u> |
| Total comprehensive income/(loss) | | <u><u>\$ (1,891)</u></u> | <u><u>\$ (970)</u></u> | <u><u>\$ (1,222)</u></u> |

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

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Pursuant to 17 C.F.R. Section 200.83

KYNDRYL
COMBINED BALANCE SHEET

| (\$ in millions) | | | |
|--|-------|-----------------|-----------------|
| At December 31: | Notes | 2020 | 2019 |
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents | | \$ 24 | \$ 36 |
| Restricted cash | | 14 | 14 |
| Notes and accounts receivable (net of allowances of \$91 in 2020 and \$82 in 2019) | | 1,444 | 1,790 |
| Deferred costs | C | 1,205 | 1,133 |
| Prepaid expenses and other current assets | | 157 | 178 |
| Total current assets | | \$ 2,843 | \$ 3,151 |
| Property and equipment – net | F | \$ 3,991 | \$ 4,125 |
| Operating right-of-use assets – net | G | 1,131 | 1,218 |
| Deferred costs | C | 1,441 | 1,561 |
| Deferred taxes | E | 424 | 349 |
| Goodwill | H | 1,230 | 1,162 |
| Intangible assets – net | H | 60 | 87 |
| Other assets | | 86 | 90 |
| Total assets | | \$11,205 | \$11,744 |
| Liabilities and equity: | | | |
| Current liabilities: | | | |
| Short-term debt | I | \$ 69 | \$ 42 |
| Accounts payable | | 919 | 826 |
| Compensation and benefits | | 350 | 359 |
| Deferred income | C | 854 | 896 |
| Operating lease liabilities | G | 333 | 328 |
| Accrued contract costs | | 512 | 550 |
| Other accrued expenses and liabilities | J | 874 | 406 |
| Total current liabilities | | \$ 3,910 | \$ 3,408 |
| Long-term debt | I | \$ 140 | \$ 100 |
| Retirement and nonpension postretirement benefit obligations | N | 550 | 489 |
| Deferred income | C | 543 | 615 |
| Operating lease liabilities | G | 850 | 890 |
| Other liabilities | J | 282 | 294 |
| Total liabilities | | \$ 6,274 | \$ 5,796 |
| Commitments and contingencies | K | | |
| Net Parent investment | | \$ 5,972 | \$ 7,112 |
| Accumulated other comprehensive income/(loss) | | (1,100) | (1,220) |
| Total Net Parent investment | | 4,873 | 5,892 |
| Noncontrolling interests | | 58 | 56 |
| Total equity | | \$ 4,931 | \$ 5,948 |
| Total liabilities and equity | | \$11,205 | \$11,744 |

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

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Pursuant to 17 C.F.R. Section 200.83

KYNDRYL
COMBINED STATEMENT OF CASH FLOWS

| (\$ in millions) | | | |
|--|-----------------|-------------------|-------------------|
| For the year ended December 31: | 2020 | 2019 | 2018 |
| Cash flows from operating activities: | | | |
| Net income/(loss) | \$(2,011) | \$ (943) | \$ (980) |
| Adjustments to reconcile net income/(loss) to cash provided by operating activities: | | | |
| Depreciation and amortization | | | |
| Depreciation | 1,869 | 1,898 | 1,496 |
| Amortization of deferred costs | 2,061 | 2,109 | 2,053 |
| Amortization of intangibles | 29 | 29 | 29 |
| Stock-based compensation | 64 | 51 | 57 |
| Deferred taxes | (52) | (33) | 40 |
| Net (gain)/loss on asset sales and other | 4 | 1 | (31) |
| Change in operating assets and liabilities: | | | |
| Deferred Costs | (1,917) | (1,802) | (2,334) |
| Right-of-use assets and liabilities | (372) | (418) | — |
| Workforce Rebalancing | 560 | 27 | 0 |
| Receivables | 387 | 23 | 220 |
| Accounts payable | 70 | 33 | (29) |
| Other assets/other liabilities | (62) | 159 | 153 |
| Net cash provided by operating activities | \$ 628 | \$ 1,134 | \$ 674 |
| Cash flows from investing activities: | | | |
| Payments for property and equipment | \$(1,036) | \$(1,190) | \$(1,563) |
| Proceeds from disposition of property and equipment | 84 | 63 | 114 |
| Other investing activities, net | (1) | (2) | (2) |
| Net cash used in investing activities | \$ (953) | \$ (1,128) | \$ (1,451) |
| Cash flows from financing activities: | | | |
| Payments to settle debt | \$ (66) | \$ (18) | \$ — |
| Net transfers from Parent | 377 | 18 | 791 |
| Net cash provided by financing activities | \$ 312 | \$ 0 | \$ 791 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | \$ 1 | \$ (1) | \$ (5) |
| Net change in cash, cash equivalents and restricted cash | \$ (13) | \$ 5 | \$ 10 |
| Cash, cash equivalents and restricted cash at January 1 | 50 | 46 | 36 |
| Cash, cash equivalents and restricted cash at December 31 | \$ 38 | \$ 50 | \$ 46 |
| Supplemental data | | | |
| Income taxes paid – net of refunds received | \$ — | \$ — | \$ — |
| Interest paid on debt | \$ — | \$ — | \$ — |

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

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Pursuant to 17 C.F.R. Section 200.83

KYNDRYL
COMBINED STATEMENT OF EQUITY

| (\$ in millions) | Net Parent Investment | Accumulated Other Comprehensive Income/(Loss) | Total Net Parent Investment | Non-Controlling Interests | Total Equity |
|--|-----------------------------|---|-----------------------------------|------------------------------|------------------|
| Equity – January 1, 2018 | \$6,978 | \$ (950) | \$ 6,027 | \$ 63 | \$ 6,090 |
| Cumulative effect of change in accounting principle – Revenue * | 154 | | 154 | | 154 |
| Net income/(loss) plus other comprehensive income/(loss): | | | | | |
| Net income/(loss) | (980) | | (980) | | (980) |
| Other comprehensive income/(loss) | | (243) | (243) | | (243) |
| Total comprehensive income/(loss) | | | <u>\$(1,222)</u> | | <u>\$(1,222)</u> |
| Net transfers from parent | 1,304 | | 1,304 | | 1,304 |
| Changes in non-controlling interests | | | | (11) | (11) |
| Equity – December 31, 2018 | <u>\$7,457</u> | <u>\$(1,193)</u> | <u>\$ 6,264</u> | <u>\$ 52</u> | <u>\$ 6,315</u> |

* Reflects the adoption of FASB guidance. Refer to note B, “Accounting Pronouncements.”

| (\$ in millions) | Net Parent Investment | Accumulated Other Comprehensive Income/(Loss) | Total Net Parent Investment | Non-Controlling Interests | Total Equity |
|--|-----------------------------|---|-----------------------------------|------------------------------|-----------------|
| Equity – January 1, 2019 | \$7,457 | \$ (1,193) | \$6,264 | \$52 | \$6,315 |
| Net income/(loss) plus other comprehensive income/(loss): | | | | | |
| Net income/(loss) | (943) | | (943) | | (943) |
| Other comprehensive income/(loss) | | (27) | (27) | | (27) |
| Total comprehensive income/(loss) | | | <u>\$ (970)</u> | | <u>\$ (970)</u> |
| Net transfers from parent | 598 | | 598 | | 598 |
| Changes in non-controlling interests | | | | 4 | 4 |
| Equity – December 31, 2019 | <u>\$7,112</u> | <u>\$(1,220)</u> | <u>\$5,892</u> | <u>\$56</u> | <u>\$5,948</u> |

| (\$ in millions) | Net Parent Investment | Accumulated Other Comprehensive Income/(Loss) | Total Net Parent Investment | Non-Controlling Interests | Total Equity |
|--|-----------------------------|---|-----------------------------------|------------------------------|------------------|
| Equity – January 1, 2020 | \$ 7,112 | \$ (1,220) | \$ 5,892 | \$56 | \$ 5,948 |
| Net income/(loss) plus other comprehensive income/(loss): | | | | | |
| Net income/(loss) | (2,011) | | (2,011) | | (2,011) |
| Other comprehensive income/(loss) | | 121 | 121 | | 121 |
| Total comprehensive income/(loss) | | | <u>\$(1,891)</u> | | <u>\$(1,891)</u> |
| Net transfers from parent | 872 | | 872 | | 872 |
| Changes in non-controlling interests | | | | 2 | 2 |
| Equity – December 31, 2020 | <u>\$ 5,972</u> | <u>\$(1,100)</u> | <u>\$ 4,873</u> | <u>\$58</u> | <u>\$ 4,931</u> |

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE A. SIGNIFICANT ACCOUNTING POLICIES

Background

On October 8, 2020, International Business Machines Corporation (IBM or Parent) announced plans for the complete legal and structural separation of the managed infrastructure services unit of its Global Technology Services (GTS) segment into a new public company. The name of the new company is Kyndryl. The separation is expected to be achieved through a U.S. federal tax-free spin-off to IBM shareholders. It will be subject to customary market, regulatory and other closing conditions, including final IBM Board of Directors' approval.

Prior to separation, IBM's GTS segment includes Infrastructure & Cloud Services and Technology Support Services (TSS). The Infrastructure & Cloud services unit consists of IBM's managed infrastructure services capabilities and the IBM Public Cloud. The components of the GTS segment that will remain with IBM will be the IBM Public Cloud and TSS. Kyndryl will also provide the security, regulatory and risk management services and identity management services offerings which have historically been included within the Security Services unit of IBM's Cloud & Cognitive Software segment.

Basis of Presentation

The accompanying combined financial statements and footnotes of Kyndryl have been prepared in connection with the expected separation and have been derived from the consolidated financial statements and accounting records of IBM as if Kyndryl operated on a standalone basis during the periods presented, and were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). References in these combined financial statements to "the Company" or "Kyndryl" refer to IBM's managed infrastructure services business as it was historically managed.

The combined financial statements reflect allocations of certain IBM corporate, infrastructure and shared services expenses, including centralized research, legal, human resources, payroll, finance and accounting, employee benefits, real estate, insurance, information technology, telecommunications, treasury, and other expenses. Where possible, these charges were allocated based on direct usage, with the remainder allocated on a pro rata basis of headcount, gross profit, asset, or other allocation methodologies that are considered to be a reasonable reflection of the utilization of services provided or the benefit received by Kyndryl during the periods presented. The allocations may not, however, reflect the expense the Company would have incurred as a standalone company for the periods presented. These costs also may not be indicative of the expenses that the Company will incur in the future or would have incurred if the Company had obtained these services from a third party.

The Combined Balance Sheet of the Company includes IBM's assets and liabilities that are specifically identifiable or otherwise attributable to the Company, including subsidiaries and/or joint ventures conducting managed infrastructure services business in which IBM has a controlling financial interest or is the primary beneficiary.

Cash and cash equivalents held by IBM at the corporate level were not attributable to the Company for any of the periods presented due to IBM's centralized approach to cash management and the financing of its operations. Only cash amounts specifically held by Kyndryl are reflected in the Combined Balance Sheet. IBM's debt was not attributed to the Company for any of the periods presented because IBM's borrowings are not the legal obligation of Kyndryl. The only third-party debt obligations included in the combined financial statements are those for which the legal obligor is a legal entity of Kyndryl. Interest expense in the Combined Income Statement reflects the allocation of interest on borrowing and funding related activity associated with the portion of IBM's borrowings where the proceeds benefited us. Transfers of cash, both to and from IBM's centralized cash management system, are reflected as a component of Net Parent investment in the Combined Balance Sheet and as financing activities in the accompanying Combined Statement of Cash Flows.

IBM maintains various benefit and stock-based compensation plans at a corporate level and other pension and postretirement-related benefit plans at a subsidiary level. The Company's employees participate

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Pursuant to 17 C.F.R. Section 200.83**

in those programs and a portion of the cost of those plans is included in the Company's combined financial statements. However, the Combined Balance Sheet does not include any net benefit plan assets or obligations unless legally sponsored by the Company. See note M, "Stock-Based Compensation" and note N, "Retirement-Related Benefits," for additional information.

Net Parent investment in the Combined Balance Sheet represents the accumulation of the Company's net income/(loss) over time and net non-trade intercompany transactions between Kyndryl and IBM (for example, investments from IBM or distributions to IBM). Changes in these non-trade intercompany balances are reflected as Net transfers from Parent in the financing activities section of the Combined Statement of Cash Flows.

As a result of the allocations and carve out methodologies used to prepare these combined financial statements, these results may not be indicative of the Company's future performance, and may not reflect the results of operations, financial position, and cash flows had Kyndryl been a separate, standalone company during the periods presented.

Kyndryl's operations are included in the consolidated U.S. federal, certain state and local and foreign income tax returns filed by IBM, where applicable. The income tax provision included in these combined financial statements has been calculated using the separate return basis, as if Kyndryl filed separate tax returns. Post separation, Kyndryl's operating footprint as well as tax return elections and assertions are expected to be different and therefore, Kyndryl's hypothetical income taxes, as presented in the combined financial statements, are not expected to be indicative of the Company's future income taxes. Current income tax liabilities including amounts for unrecognized tax benefits related to Kyndryl's activities included in the Parent's income tax returns were assumed to be immediately settled with Parent through the Net Parent investment account in the Combined Balance Sheet and reflected in Net transfers from Parent in the Combined Statement of Cash Flows.

Within the financial statements and tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages presented are calculated from the underlying whole-dollar amounts.

Noncontrolling interest amounts of \$9 million, \$9 million and \$6 million, net of tax, for the years ended December 31, 2020, 2019 and 2018, respectively, are included as a reduction within other (income) and expense in the Combined Income Statement.

Principles of Combination

The combined financial statements include the Company's net assets and results of operations as described above. All significant intracompany transactions between Kyndryl's businesses have been eliminated. All significant intercompany transactions between Kyndryl and IBM have been included in the combined financial statements. Intercompany transactions between Kyndryl and IBM are considered to be effectively settled in the combined financial statements at the time the transaction is recorded. The total net effect of the settlement of these intercompany transactions is reflected as Net transfers from Parent in the financing activities section in the Combined Statement of Cash Flows and in the Combined Balance Sheet within Net Parent investment.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts that are reported in the combined financial statements and accompanying disclosures. Estimates are used in determining the allocation of costs and expenses from IBM, and are used in determining the following, among others: revenue, costs to complete service contracts, income taxes, pension assumptions, valuation of assets including goodwill and intangible assets, the depreciable and amortizable lives of other long-lived assets, loss contingencies, allowance for credit losses, deferred transition costs and other matters. These estimates are based on management's best knowledge of current events, historical experience, actions that the Company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances, including the macroeconomic impacts of the COVID-19 pandemic (beginning in 2020). Actual results may be different from these estimates.

Revenue

The Company accounts for a contract with a client when it has written approval, the contract is committed, the rights of the parties, including payment terms, are identified, the contract has commercial substance and consideration is probable of collection.

Revenue is recognized when, or as, control of a promised product or service transfers to a client, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services. If the consideration promised in a contract includes a variable amount, the Company estimates the amount to which it expects to be entitled using either the expected value or most likely amount method. The Company's contracts may include terms that could cause variability in the transaction price, including, for example, rebates, volume discounts, service-level penalties, and performance bonuses or other forms of contingent revenue.

The Company only includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company may not be able to reliably estimate contingent revenue in certain long-term arrangements due to uncertainties that are not expected to be resolved for a long period of time or when the Company's experience with similar types of contracts is limited. The Company's arrangements infrequently include contingent revenue. Changes in estimates of variable consideration are included in note C, "Revenue Recognition."

The Company's standard billing terms are that payment is due upon receipt of invoice, payable within 30 days. Invoices are generally issued as control transfers and/or as services are rendered, either at monthly or quarterly intervals or upon achievement of contractual milestones. In some services contracts, the Company bills the client prior to recognizing revenue from performing the services. In these cases, deferred income is presented in the Combined Balance Sheet. In other services contracts, the Company performs the services prior to billing the client. When the Company performs services prior to billing the client in design and build contracts, the right to consideration is typically subject to milestone completion or client acceptance and the unbilled accounts receivable is classified as a contract asset. Refer to note C, "Revenue Recognition," for contract assets for the periods presented. Contract assets are included in prepaid expenses and other current assets in the Combined Balance Sheet. The remaining amount of unbilled accounts receivable of \$358 million and \$389 million at December 31, 2020 and 2019, respectively, is included in notes and accounts receivable in the Combined Balance Sheet. Additionally, in determining the transaction price, the Company adjusts the promised amount of consideration for the effects of the time value of money if the billing terms are not standard and the timing of payments agreed to by the parties to the contract provide the client or the Company with a significant benefit of financing, in which case the contract contains a significant financing component. As a practical expedient, the Company does not account for significant financing components if the period between when the Company transfers the promised product or service to the client and when the client pays for that product or service will be one year or less.

The Company may include subcontractor services or third-party vendor equipment or software in certain integrated services arrangements. In these types of arrangements, revenue from sales of third-party vendor products or services is recorded net of costs when the Company is acting as an agent between the client and the vendor, and gross when the Company is the principal for the transaction. To determine whether the Company is an agent or principal, the Company considers whether it obtains control of the products or services before they are transferred to the customer. In making this evaluation, several factors are considered, most notably whether the Company has primary responsibility for fulfillment to the client, as well as inventory risk and pricing discretion.

The Company reports revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions.

In addition to the aforementioned general policies, the following are the specific revenue recognition policies for arrangements with multiple performance obligations and for the Company's offerings.

Arrangements with Multiple Performance Obligations

The Company's capabilities as an infrastructure services company include offerings that often encompass multiple types of services and may integrate various IBM or other Original Equipment Manufacturer (OEM)

hardware and/or OEM software components. When an arrangement contains multiple distinct performance obligations, revenue follows the specific revenue recognition policies for each deliverable, depending on the type of offering. To the extent that a product or service in multiple performance obligation arrangements is subject to other specific accounting guidance, such as leasing guidance, that product or service is accounted for in accordance with such specific guidance. For all other products or services in these arrangements, the Company determines if the products or services are distinct and allocates the consideration to each distinct performance obligation on a relative standalone selling price basis.

When products and services are not distinct, the Company determines an appropriate measure of progress based on the nature of its overall promise for the single performance obligation.

The revenue policies below are applied to each performance obligation, as applicable.

Services

The Company delivers transformation and secure cloud services capabilities, insights, and depth of expertise to modernize and manage IT environments based on its customers' unique patterns of transformation at scale. The Company offers services such as cloud managed services, data services, security and resiliency services, enterprise infrastructure services, digital workplace services, network services, managed Independent Software Vendor services, and distributed cloud services to support its customers through technological change. Many of these services can be delivered entirely or partially through cloud or as-a-Service delivery models. The Company's services are provided on a time-and-material basis, as a fixed-price contract or as a fixed-price per measure of output contract and the contract terms range from less than one year to over 10 years. The Company typically satisfies the performance obligation and recognizes revenue over time in services arrangements because the client simultaneously receives and consumes the benefits provided as the Company performs the services.

In outsourcing, other managed services, application management, and other cloud-based services arrangements, the Company determines whether the services performed during the initial phases of the arrangement, such as setup activities, are distinct. In most cases, the arrangement is a single performance obligation comprised of a series of distinct services that are substantially the same and that have the same pattern of transfer (i.e., distinct days of service). The Company applies a measure of progress (typically time-based) to any fixed consideration and allocates variable consideration to the distinct periods of service based on usage. As a result, revenue is generally recognized over the period the services are provided on a usage basis. This results in revenue recognition that corresponds with the value to the client of the services transferred to date relative to the remaining services promised.

Revenue from time-and-material contracts is recognized on an output basis as labor hours are delivered and/or direct expenses are incurred. Revenue from as-a-Service type contracts is recognized either on a straight-line basis or on a usage basis, depending on the terms of the arrangement (such as whether the Company is standing ready to perform or whether the contract has usage-based metrics). If an as-a-Service contract includes setup activities, those promises in the arrangement are evaluated to determine if they are distinct.

In design and build arrangements, revenue is recognized based on progress toward completion of the performance obligation using a cost-to-cost measure of progress (e.g. labor costs incurred to date as a percentage of the total estimated labor costs to fulfill the contract). The estimation of cost at completion is complex, subject to many variables and requires significant judgment. Changes in original estimates are reflected in revenue on a cumulative catch-up basis in the period in which the circumstances that gave rise to the revision become known by the Company. Refer to note C, "Revenue Recognition," for the amount of revenue recognized in the reporting period on a cumulative catch-up basis (i.e., from performance obligations satisfied, or partially satisfied, in previous periods).

The Company performs ongoing profitability analyses of its design and build services contracts accounted for using a cost-to-cost measure of progress to determine whether the latest estimates of revenues, costs and profits require updating. If at any time these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately. For other types of services contracts, any losses are recorded as incurred.

The Company's services offerings may include the integration and/or sale of IBM or OEM hardware and/or software components. Contracts that include hardware and/or software components are evaluated to determine if they are distinct performance obligations in accordance with the "Arrangements with Multiple Performance Obligations" section above. Further, the Company assesses contracts with customers to determine whether an embedded lease arrangement exists. A contract with a customer includes an embedded lease when the Company grants the customer a right to control the use of an identified asset for a period of time in exchange for consideration. Generally, the hardware or software utilized in outsourcing, managed services, application management, and other cloud-based services arrangements are not distinct and do not meet the criteria to be considered an embedded lease. As a result, revenue is generally recognized over time, consistent with the services provided to the customer.

For distinct hardware sales, revenue is recognized when control has transferred to the customer which typically occurs when the hardware has been shipped to the client, risk of loss has transferred to the client and the Company has a present right to payment for the hardware.

Contracts are only determined to have distinct software components when the arrangement includes a license to the software. To meet this criterion, the customer must have both the contractual right to take possession of the software at any time, and the ability to feasibly run the software on its own hardware or hire another party to host the software without significant economic or functional penalty. Revenue for distinct software is typically recognized at the beginning of the services arrangement as that is the point in time the customer can access and benefit from the software, and the point at which they have a legal right to possession.

Standalone Selling Price

The Company allocates the transaction price to each performance obligation on a relative standalone selling price basis. The standalone selling price (SSP) is the price at which the Company would sell a promised product or service separately to a client. In most cases, the Company is able to establish SSP based on the observable prices of products or services sold separately in comparable circumstances to similar clients. For third-party hardware or software components, the Company is able to establish SSP based on the cost from the vendor. Historically, SSP for IBM hardware and software components offered in the Company's solutions were based on IBM's SSP for these products and were approved and determined by IBM's management. The Company reassesses SSP ranges on a periodic basis or when facts and circumstances change.

In certain instances, the Company may not be able to establish a SSP range based on observable prices and the Company estimates SSP. The Company estimates SSP by considering multiple factors including, but not limited to, overall market conditions, including geographic or regional specific factors, competitive positioning, competitor actions, internal costs, profit objectives and pricing practices. Estimating SSP is a formal process that includes review and approval by the Company's management.

Cost of Services

Recurring operating costs for services contracts are recognized as incurred. Certain eligible, nonrecurring costs (i.e., setup costs) incurred in the initial phases of outsourcing contracts and other cloud-based services contracts, are capitalized when the costs relate directly to the contract, the costs generate or enhance resources of the Company that will be used in satisfying the performance obligation in the future, and the costs are expected to be recovered. These costs consist of transition and setup costs related to the installation of systems and processes and other deferred fulfillment costs, including, for example, prepaid assets used in services contracts (i.e., prepaid software or prepaid maintenance). Capitalized costs are amortized on a straight-line basis over the expected period of benefit, which approximates the pattern of transfer to the client of the services to which the asset relates and includes anticipated contract renewals or extensions. Additionally, fixed assets associated with these contracts are capitalized and depreciated on a straight-line basis over the expected useful life of the asset and recorded in cost of sales. If an asset is contract specific and cannot be repurposed, then the depreciation period is the shorter of the useful life of the asset or the contract term. Amounts paid to clients in excess of the fair value of acquired assets used in outsourcing arrangements are deferred and amortized on a straight-line basis as a reduction of revenue over the expected period of benefit. The Company performs periodic reviews to assess the recoverability of deferred contract

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Pursuant to 17 C.F.R. Section 200.83**

transition and setup costs. If the carrying amount is deemed not recoverable, an impairment loss is recognized. Refer to note C, "Revenue Recognition," for the amount of deferred costs to fulfill a contract at December 31, 2020 and 2019.

In situations in which an outsourcing contract is terminated, the terms of the contract may require the client to reimburse the Company for the recovery of unbilled accounts receivable, unamortized deferred contract costs and additional costs incurred by the Company to transition the services.

Incremental Costs of Obtaining a Contract

Incremental costs of obtaining a contract (e.g., sales commissions) are capitalized and amortized on a straight-line basis, which approximates the pattern that the assets' economic benefits are expected to be consumed, over the expected customer relationship period if the Company expects to recover those costs. The expected customer relationship period is determined based on the average customer relationship period, including expected renewals, for each offering type and ranges from three to six years. Expected renewal periods are only included in the expected customer relationship period if commission amounts paid upon renewal are not commensurate with amounts paid on the initial contract. Incremental costs of obtaining a contract include only those costs the Company incurs to obtain a contract that it would not have incurred if the contract had not been obtained. The Company has determined that certain commissions programs meet the requirements to be capitalized. Some commission programs are not subject to capitalization as the commission expense is paid and recognized as the related revenue is recognized. Additionally, as a practical expedient, the Company expenses costs to obtain a contract as incurred if the amortization period would have been a year or less. These costs are included in selling, general and administrative expenses.

Expense and Other Income

Selling, General and Administrative

Selling, general and administrative (SG&A) expense is charged to income as incurred, except for certain sales commissions, which are capitalized and amortized. For further information regarding capitalizing sales commissions, see "Incremental Costs of Obtaining a Contract" above. Expenses of promoting and selling services are classified as selling expense and, in addition to sales commissions, include such items as compensation, advertising and travel. General and administrative expense includes such items as compensation, legal costs, office supplies, non-income taxes, insurance and office rental. In addition, general and administrative expense includes other operating items such as allowance for credit losses, workforce rebalancing charges for contractually obligated payments to employees terminated in the ongoing course of business and amortization of certain intangible assets. A portion of SG&A is allocated to the Company by IBM based on direct usage, with the remainder allocated on a pro-rata basis of gross profit, headcount, asset ownership or other measures the Company has determined as reasonable. For further information, see note O, "Related Party Transactions."

Advertising and Promotional Expense

Advertising and promotional costs are expensed as incurred. Advertising and promotional expense, which includes media, agency, and promotional expense directly incurred by the Company was \$34 million, \$55 million and \$40 million in 2020, 2019 and 2018, respectively, and is recorded in SG&A expense in the Combined Income Statement.

Research, Development and Engineering

Research, development and engineering (RD&E) costs are expensed as incurred and primarily consist of personnel costs as well as an allocation of facilities, depreciation, benefits and internal-use software costs. RD&E expense was \$76 million in 2020, \$83 million in 2019 and \$69 million in 2018.

Other (Income) and Expense

Other (income) and expense primarily consists of expense related to certain components of retirement-related costs, including interest costs, expected return on plan assets, amortization of prior service costs

(credits), curtailments and settlements and other net periodic pension/post-retirement benefit costs. Also included are allocations of gains and losses from foreign currency transactions, certain real estate transactions and corporate expenses. For more information, see note O, "Related Party Transactions".

Intangible Assets Including Goodwill

Goodwill attributed to the Company represents the historical goodwill balances in the Parent's managed infrastructure services business arising from acquisitions specific to the Company. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. The primary drivers that generate goodwill are the value of synergies between the acquired entities and the Company and the acquired assembled workforce, neither of which qualifies as a separately identifiable intangible asset. Goodwill recorded in an acquisition is assigned to applicable reporting units based on expected revenues or expected cash flows. Identifiable intangible assets with finite lives are amortized on a straight-line basis over their useful lives, which approximates the pattern that the assets' economic benefits are expected to be consumed over time. Amortization of completed technology is recorded in cost of services, and amortization of all other intangible assets is recorded in SG&A expense. Acquisition-related costs, including advisory, legal, accounting, valuation, and pre-close and other costs, are typically expensed in the periods in which the costs are incurred and are recorded in SG&A expense. The results of operations of acquired businesses are included in the combined financial statements from the acquisition date.

Impairment

Long-lived assets, other than goodwill, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment test is based on undiscounted cash flows and, if impaired, the asset is written down to fair value based on either discounted cash flows or appraised values. Goodwill is tested for impairment at least annually and whenever changes in circumstances indicate an impairment may exist. The goodwill impairment test is performed at the reporting unit level.

Depreciation and Amortization

Property and equipment are carried at cost and depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of certain depreciable assets are as follows: buildings, 30 to 50 years; land improvements, 20 years; office and other equipment, 2 to 20 years; and information technology equipment, 1.5 to 5 years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term, rarely exceeding 10 years.

Within the Combined Statement of Cash Flows and in note D, "Segments," the Company also includes the amortization of deferred costs, such as contract setup costs and deferred fulfillment costs, in its depreciation/amortization totals. Capitalized costs are amortized on a straight-line basis over the expected period of benefit.

Environmental

The cost of internal environmental protection programs that are preventative in nature are expensed as incurred. When a cleanup program becomes likely, and it is probable that the Company will incur cleanup costs and those costs can be reasonably estimated, the Company accrues remediation costs for known environmental liabilities.

Asset Retirement Obligations

The Company records the fair value of Asset retirement obligations (ARO), which are legal obligations associated with the retirement of long-lived assets, based on an allocation from IBM using headcount and other reasonable allocation methodologies. The related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the

Company records period-to-period changes in the ARO liability resulting from the passage of time in interest expense and revisions to either the timing or the amount of the original expected cash flows to the related assets.

Defined Benefit Pension and Nonpension Postretirement Benefit Plans

The defined benefit plans in which the Company participates relate primarily to plans sponsored by the Parent. The Company accounts for these plans as multi-employer plans, and therefore the related assets and liabilities are not reflected in the Combined Balance Sheet. The Combined Income Statement reflects a proportional allocation of net periodic benefit cost for the multi-employer plans associated with the Company.

The Company also participates in self-sponsored plans (single employer plans). Single employer plans reflected in the combined financial statements represent the historical results of the legal entities that are being transferred to the Company. Refer to note N, "Retirement Related Benefits" for further details on the accounting for multi-employer and single employer plans.

For single employer plans, the funded status is recognized in the Combined Balance Sheet. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at December 31, the measurement date. For defined benefit pension plans, the benefit obligation is the projected benefit obligation (PBO), which represents the actuarial present value of benefits expected to be paid upon retirement based on employee services already rendered and estimated future compensation levels. For the nonpension postretirement benefit plans, the benefit obligation is the accumulated postretirement benefit obligation (APBO), which represents the actuarial present value of postretirement benefits attributed to employee services already rendered. The fair value of plan assets represents the current market value of assets held in an irrevocable trust fund, held for the sole benefit of participants, which are invested by the trust fund. Overfunded plans, with the fair value of plan assets exceeding the benefit obligation, are aggregated and recorded as a prepaid pension asset equal to this excess. Underfunded plans, with the benefit obligation exceeding the fair value of plan assets, are aggregated and recorded as a retirement and nonpension postretirement benefit obligation equal to this excess.

The current portion of the retirement and nonpension post-retirement benefit obligations represents the actuarial present value of benefits payable in the next 12 months exceeding the fair value of plan assets, measured on a plan-by-plan basis. This obligation is recorded in compensation and benefits in the Combined Balance Sheet.

Net periodic pension and nonpension postretirement benefit cost/(income) is recorded in the Combined Income Statement and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs/(credits) and (gains)/losses previously recognized as a component of other comprehensive income/(loss) (OCI). The service cost component of net benefit cost is recorded in Cost, SG&A and RD&E in the Combined Income Statement (unless eligible for capitalization) based on the employees' respective functions. The other components of net benefit cost are presented separately from service cost within other (income) and expense in the Combined Income Statement.

(Gains)/losses and prior service costs/(credits) are recognized as a component of OCI in the Combined Statement of Comprehensive Income as they arise. Those (gains)/losses and prior service costs/(credits) are subsequently recognized as a component of net periodic pension and nonpension postretirement cost/(income) pursuant to the recognition and amortization provisions of applicable accounting guidance. (Gains)/losses arise as a result of differences between actual experience and assumptions or as a result of changes in actuarial assumptions. Prior service costs/(credits) represent the cost of benefit changes attributable to prior service granted in plan amendments.

The measurement of benefit obligations and net periodic pension and nonpension postretirement cost/(income) is based on estimates and assumptions approved by the Company's management. These valuations reflect the terms of the plans and use participant-specific information such as compensation, age and years of service, as well as certain assumptions, including estimates of discount rates, expected return on plan assets, rate of compensation increases, interest crediting rates and mortality rates.

Defined Contribution Plans

The Parent offers various defined contribution plans for U.S. and non-U.S. employees. Contributions are recorded when the employee renders service to the Company. The charge is recorded in Cost, SG&A and RD&E in the Combined Income Statement based on the employees' respective functions.

Stock-Based Compensation

Stock-based compensation represents the cost related to stock-based awards granted to employees under IBM's stock-based compensation plans. The Company measures stock-based compensation cost at the grant date, based on the estimated fair value of the award and recognizes the cost on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. IBM grants the Company's employees Restricted Stock Units (RSUs), including Retention Restricted Stock Units (RRSUs) and Performance Share Units (PSUs); and periodically grants stock options. RSUs are stock awards granted to employees that entitle the holder to shares of IBM common stock as the award vests, typically over a one- to five-year period. PSUs are stock awards where the number of IBM shares ultimately received by the employee depends on the Parent's performance against specified targets and typically vest over a three-year period. Over the performance period, the number of shares that will be issued is adjusted based upon the probability of achievement of performance targets. The ultimate number of IBM shares issued and the related compensation cost recognized as expense will be based on a comparison of the final performance metrics to the specified targets. Dividend equivalents are not paid on the stock awards described above. The fair value of the awards is determined and fixed on the grant date based on IBM's stock price, adjusted for the exclusion of dividend equivalents where applicable and for PSUs assumes that performance targets will be achieved. The Company estimates the fair value of stock options using a Black-Scholes valuation model. Stock-based compensation cost is recorded in Cost, SG&A, and RD&E in the Combined Income Statement based on the employees' respective functions.

The Company records deferred tax assets for awards that result in tax deductions in the combined financial statements calculated using the separate return basis based on the amount of compensation cost recognized and the relevant statutory tax rates. The differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the income tax return are recorded as a benefit or expense to the provision for income taxes in the Combined Income Statement.

Income Taxes

The Company's operations have historically been included in certain tax returns filed by the Parent. Income tax expense and other income tax related information contained in the combined financial statements are presented on a hypothetical separate return basis as if the Company filed separate tax returns. The separate return method applies the accounting guidance for income taxes to the standalone financial statements as if the Company were a separate taxpayer and a standalone enterprise for the periods presented. Tax attributes have been reported based on the hypothetical separate return basis results for the periods presented in the combined financial statements. The calculation of income taxes on a hypothetical separate return basis requires a considerable amount of judgment and use of both estimates and allocations, therefore items of current and deferred taxes may not be reflective of the actual tax balances subsequent to the periods presented. Current income tax liabilities including amounts for unrecognized tax benefits related to Kyndryl's activities included in the Parent's income tax returns are assumed to be immediately settled with Parent and are relieved through the Net Parent investment account in the Combined Balance Sheet and Net transfers from Parent in the Combined Statements of Cash Flows.

Income tax expense is based on reported income before income taxes. Deferred income taxes reflect the tax effect of temporary differences between asset and liability amounts that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes. These deferred taxes are measured by applying currently enacted tax laws. The U.S. Tax Cuts and Jobs Act (U.S. tax reform) introduced Global Intangible Low Taxed Income (GILTI), which subjects a U.S. shareholder to current tax on income earned by certain foreign subsidiaries. GAAP allows companies to either (1) recognize deferred taxes for temporary differences that are expected to reverse as GILTI in future years or (2) account for taxes on GILTI as period costs in the year the tax is incurred. Beginning in 2018, IBM elected to include GILTI in measuring deferred taxes. The combined financial statements for Kyndryl have been prepared using the period

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Pursuant to 17 C.F.R. Section 200.83**

cost method since there is no GILTI inclusion in the periods presented and deferred GILTI does not, and is not expected to have, a significant impact in the combined financial statements or when it is on a stand-alone basis, post separation. Valuation allowances are recognized to reduce deferred tax assets to the amount that will more likely than not be realized on a hypothetical separate return basis. In assessing the need for a valuation allowance, management considers all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of ongoing tax planning strategies/actions. When there is a change in the determination as to the amount of deferred tax assets that can be realized, the valuation allowance is adjusted with a corresponding impact to provision for income taxes in the period in which such determination is made.

The Company recognizes additional tax expense when it believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in provision for income taxes.

Translation of Non-U.S. Currency Amounts

Assets and liabilities of non-U.S. subsidiaries that have a local functional currency are translated to U.S. dollars at year-end exchange rates. Translation adjustments are recorded in OCI. Income and expense items are translated at weighted-average rates of exchange prevailing during the year.

Inventory, property and equipment — net and other non-monetary assets and liabilities of non-U.S. subsidiaries and branches that operate in U.S. dollars are translated at the approximate exchange rates prevailing when the Company acquired the assets or liabilities. All other assets and liabilities denominated in a currency other than U.S. dollars are translated at year-end exchange rates with the transaction gain or loss recognized in other (income) and expense. Income and expense items are translated at the weighted-average rates of exchange prevailing during the year. These translation gains and losses are included in net income for the period in which exchange rates change.

Derivative Financial Instruments

Kyndryl does not independently execute derivative financial instruments to manage its foreign currency risk and instead participates in a centralized foreign currency hedging program administered by IBM. The hedging activity allocated to Kyndryl is for the management of the Company's forecasted foreign currency expenses.

Accordingly, the Combined Income Statement includes the impact of IBM's derivative financial instruments designated as cash flow hedges to manage foreign currency risk that is deemed to be associated with the Company's operations and has been allocated to the Company based on its pro rata share of the underlying items hedged, where applicable, with the remainder allocated on a pro-rata basis of revenue. No assets or liabilities are reflected in the Combined Balance Sheet from amounts related to derivatives and hedging activities. In 2020, 2019 and 2018 the Company recognized net gains from derivatives of \$7 million, \$19 million and \$9 million, respectively, in Cost of services. The Company recognized a net loss from derivatives of \$1 million and net gains of \$12 million and \$1 million in 2020, 2019 and 2018 respectively, in SG&A expense. In 2020 and 2019 the Company recognized net gains from derivatives of \$6 million and \$20 million respectively, and recognized a net loss of \$1 million in 2018 in Other (income) and expense.

Combined Statement of Cash Flows

IBM uses a centralized approach to cash management and the financing of its operations. Cash is managed centrally through bank accounts controlled and maintained by IBM. Accordingly, cash and cash equivalents held by IBM at the corporate level were not attributable to the Company for any of the periods presented. Transfers of cash, both to and from IBM's centralized cash management system are reflected as financing activities in the Combined Statement of Cash Flows.

The Company has generated positive net cash flow from operations in each of the three years presented, despite incurring net losses in each of those years. For the year ended December 31, 2020, the Company incurred significant workforce rebalancing charges, and, more recently, has undertaken other productivity

actions in anticipation of becoming a separate stand-alone public company. After considering the effects of those charges and actions, and the resulting ongoing operating cash flow savings, IBM believes Kyndryl's cash flow from operations will be sufficient to fund ongoing operations and recurring capital expenditures through at least the end of 2022.

Cash Equivalents

All highly liquid investments with maturities of three months or less at the date of purchase are considered to be cash equivalents.

Financial Instruments

In determining the fair value of its financial instruments, the Company uses methods and assumptions that are based on market conditions and risks existing at each balance sheet date. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company classifies certain assets and liabilities based on the following fair value hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date;
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 — Unobservable inputs for the asset or liability.

Items valued using internally generated models are classified according to the lowest level input or value driver that is significant to the valuation.

The determination of fair value considers various factors including interest rate yield curves and time value underlying the financial instruments.

In determining the fair value of financial instruments, the Company considers certain market valuation adjustments to the "base valuations" calculated using the methodologies described below for several parameters that market participants would consider in determining fair value:

- Counterparty credit risk adjustments are applied to financial instruments, taking into account the actual credit risk of a counterparty as observed in the credit default swap market to determine the true fair value of such an instrument.
- Credit risk adjustments are applied to reflect the Company's own credit risk when valuing all liabilities measured at fair value. The methodology is consistent with that applied in developing counterparty credit risk adjustments, but incorporates IBM's credit risk as observed in the credit default swap market.

The Company's financial assets and liabilities measured at fair value on a recurring basis were not material at December 31, 2020 and 2019. Financial assets and liabilities not measured at fair value primarily include short-term receivables and payables with carrying values that approximate fair value. If measured at fair value in the financial statements, these financial instruments would be classified as Level 3 in the fair value hierarchy.

Notes and Accounts Receivable and Contract Assets

The Company classifies the right to consideration in exchange for products or services transferred to a client as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional as compared to a contract asset which is a right to consideration that is conditional upon factors other than the passage of time. The majority of the Company's contract assets represent unbilled amounts related to

design and build services contracts when the cost-to-cost method of revenue recognition is utilized, revenue recognized exceeds the amount billed to the client, and the right to consideration is subject to milestone completion or client acceptance. Contract assets are generally classified as current and are recorded on a net basis with deferred income (i.e., contract liabilities) at the contract level.

Transfers of Financial Assets

The Parent enters into arrangements to sell to third party financial institutions certain financial assets (primarily notes and accounts receivable), a portion of which were generated by Kyndryl. For a transfer of financial assets to be considered a sale, the asset must be legally isolated from the Company and the purchaser must have control of the asset. Determining whether all the requirements have been met includes an evaluation of legal considerations, the extent of the Company's continuing involvement with the assets transferred and any other relevant consideration. When the true sales criteria are met, the Company derecognizes the carrying value of the financial asset transferred and recognizes a net gain or loss on the sale. The proceeds from these arrangements are reflected as cash provided by operating activities in the Combined Statement of Cash Flows. If the sales criteria are not met, the transfer is considered a secured borrowing and the financial asset remains on the Combined Balance Sheet with proceeds from the sale recognized as debt and recorded as cash flows from financing activities in the Combined Statement of Cash Flows. Arrangements to sell notes and accounts receivable are used in the normal course of business as part of the Parent's cash and liquidity management. IBM facilities primarily in the U.S., Canada and several countries in Europe enable the Company to sell certain notes and accounts receivable, without recourse, to third parties to manage credit, collection, concentration and currency risk. The gross amounts of Kyndryl receivables sold (the gross proceeds) under these arrangements were \$803 million, \$650 million and \$687 million for the years ended December 31, 2020, 2019 and 2018, respectively. Within the notes and accounts receivables sold and derecognized from the Combined Balance Sheet, \$90 million, \$114 million, and \$177 million remained uncollected from customers at December 31, 2020, 2019 and 2018, respectively. The fees and the net gains and losses associated with the transfer of receivables were not material for any of the periods presented.

In addition, the Company has historically assigned receivables with extended payment terms to IBM's Global Financing business. These receivables were assigned prior to inception and therefore were never recognized on the Company's Combined Balance Sheet. Refer to note O, "Related Party Transactions," for more information on assignment of receivables to IBM's Global Financing business.

Allowance for Credit Losses

Effective January 1, 2020, the Company adopted the new accounting standard related to current expected credit losses. The standard applies to financial assets measured at amortized cost, including accounts receivable and certain off-balance sheet commitments. As of the effective date, the Company estimates its allowance for current expected credit losses based on an expected loss model, compared to prior periods which were estimated using an incurred loss model. The impact related to adopting the new standard was not material. For further information regarding the adoption of the new standard, see note B, "Accounting Pronouncements."

Receivables are recorded concurrent with billing and delivery of a service to customers. An allowance for uncollectible receivables and contract assets, if needed, is estimated based on specific customer situations, current and future expected economic conditions, past experiences of losses, as well as an assessment of potential recoverability of the balance due.

Other Credit-Related Policies

Past Due — The Company views receivables as past due when payment has not been received after 90 days, measured from the original billing date.

Write-Off — Receivable losses are charged against the allowance in the period in which the receivable is deemed uncollectible. Subsequent recoveries, if any, are credited to the allowance. Write-offs of receivables and associated reserves occur to the extent that the customer is no longer in operation and/or, there is no reasonable expectation of additional collections or repossession.

Leases

When procuring goods or services, the Company determines whether an arrangement contains a lease at its inception. As part of that evaluation, the Company considers whether there is an implicitly or explicitly identified asset in the arrangement and whether the Company, as the lessee, has the right to control the use of that asset.

In its ordinary course of business, the Company enters into leases as a lessee for property and equipment. The Company recognized right-of-use (ROU) assets and associated lease liabilities in the Combined Balance Sheet for leases with a term of more than 12 months when a majority percentage of utilization was attributed to the Company. Refer to note G, "Leases," for more information on allocation methodologies. The lease liabilities are measured at the lease commencement date and determined using the present value of the lease payments not yet paid and the Company's incremental borrowing rate, which approximates the rate at which the Parent would borrow on a secured basis in the country where the lease was executed. The interest rate implicit in the lease is generally not determinable in transactions where the Parent is the lessee. The ROU asset equals the lease liability adjusted for any initial direct costs (IDCs), prepaid rent and lease incentives. The Company's variable lease payments generally relate to payments tied to various indexes, non-lease components and payments above a contractual minimum fixed amount.

Operating leases are included in operating right-of-use assets — net, current operating lease liabilities and operating lease liabilities in the Combined Balance Sheet. Finance leases are included in property and equipment, short-term debt and long-term debt in the Combined Balance Sheet. The lease term includes options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

The Company made a policy election to not recognize leases with a lease term of 12 months or less in the Combined Balance Sheet.

For all asset classes, the Company has elected the lessee practical expedient to combine lease and non-lease components (e.g., maintenance services) and account for the combined unit as a single lease component. A significant portion of the Company's lease portfolio is real estate, which are mainly accounted for as operating leases, and are primarily used for corporate offices and data centers. The average term of the real estate leases is approximately five years. The Company also has equipment leases, such as IT equipment and vehicles, which have lease terms that range from two to five years. For certain of these operating and finance leases, the Company applies a portfolio approach to account for the lease assets and lease liabilities.

NOTE B. ACCOUNTING PRONOUNCEMENTS**New Standards to be Implemented***Simplifying the Accounting for Income Taxes*

Standard/Description — Issuance date: December 2019. This guidance simplifies various aspects of income tax accounting by removing certain exceptions to the general principle of the guidance and clarifies and amends existing guidance to improve consistency in application.

Effective Date and Adoption Considerations — The guidance was effective January 1, 2021 and early adoption was permitted. The Company adopted the guidance on a prospective basis as of the effective date.

Effect on Financial Statements or Other Significant Matters — The guidance is not expected to have a material impact in the combined financial results.

Standards Implemented*Simplifying the Test for Goodwill Impairment*

Standard/Description — Issuance date: January 2017. This guidance simplifies the goodwill impairment test by removing Step 2. It also requires disclosure of any reporting units that have zero or negative carrying amounts if they have goodwill allocated to them.

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

Effective Date and Adoption Considerations — The guidance was effective January 1, 2020 and early adoption was permitted. The Company adopted the guidance on a prospective basis as of the effective date.

Effect on Financial Statements or Other Significant Matters — The guidance did not have a material impact in the Company's combined financial statements upon adoption.

Leases

Standard/Description — Issuance date: February 2016, with amendments in 2018 and 2019. This guidance requires lessees to recognize right-of-use (ROU) assets and lease liabilities for most leases in the Combined Balance Sheet. The guidance also requires qualitative and quantitative disclosures to assess the amount, timing and uncertainty of cash flows arising from leases.

Effective Date and Adoption Considerations — The Company adopted the guidance on its effective date of January 1, 2019, using the transition option whereby prior comparative periods were not retrospectively presented in the combined financial statements. The Company elected the package of practical expedients not to reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs and the lessee practical expedient to combine lease and non-lease components for all asset classes. The Company made a policy election to not recognize ROU assets and lease liabilities for short-term leases for all asset classes.

Effect on Financial Statements or Other Significant Matters — The guidance had a material impact on the Combined Balance Sheet as of the effective date. As a lessee, at adoption, the Company recognized operating ROU assets of \$1,217 million and operating lease liabilities of \$1,226 million. The adoption of the new guidance had an immaterial effect on finance leases. The transition adjustment recognized in Net Parent Investment on January 1, 2019 was not material. None of the other changes to the guidance had a material impact in the Company's combined financial results at the effective date.

Financial Instruments — Credit Losses

Standard/Description — Issuance date: June 2016, with amendments in 2018, 2019, and 2020. This changes the guidance for credit losses based on an expected loss model rather than an incurred loss model. It requires the consideration of all available relevant information when estimating expected credit losses, including past events, current conditions and forecasts and their implications for expected credit losses. It also expands the scope of financial instruments subject to impairment, including off-balance sheet commitments and residual value.

Effective Date and Adoption Considerations — The guidance was effective January 1, 2020 with one-year early adoption permitted. The Company adopted the guidance as of the effective date, using the transition methodology whereby prior comparative periods were not retrospectively presented in the combined financial statements.

Effect on Financial Statements or Other Significant Matters — At January 1, 2020, the guidance did not have a material impact in the Company's combined financial results.

Reclassification of Certain Tax Effects from AOCI

Standard/Description — Issuance date: February 2018. In accordance with its accounting policy, the Company releases income tax effects from AOCI once the reason the tax effects were established cease to exist (e.g., when available-for-sale debt securities are sold or if a pension plan is liquidated). This guidance allows for the reclassification of stranded tax effects as a result of the change in tax rates from the Tax Cuts and Jobs Act (U.S. tax reform) to be recorded upon adoption of the guidance rather than at the actual cessation date.

Effective Date and Adoption Considerations — The guidance was effective January 1, 2019 with early adoption permitted. The Company adopted the guidance effective January 1, 2018.

Effect on Financial Statements or Other Significant Matters — At adoption on January 1, 2018, the amount reclassified from AOCI to Net Parent Investment was not material.

Revenue Recognition — Contracts with Customers

Standard/Description — Issuance date: May 2014 with amendments in 2015 and 2016. Revenue recognition depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires specific disclosures relating to revenue recognition.

Effective Date and Adoption Considerations — The Company adopted the guidance on its effective date of January 1, 2018 using the modified retrospective transition method.

Effect on Financial Statements or Other Significant Matters — As a result of adoption, the Company recorded a cumulative effect net increase to Net Parent investment of \$154 million, primarily due to in-scope sales commissions previously recorded in the Combined Income Statement that were capitalized to deferred costs. The revenue guidance did not have a material impact in the Company's combined financial results. Refer to note C, "Revenue Recognition," for additional information.

For all other standards that the Company adopted in the periods presented, there was no material impact in the combined financial results.

NOTE C. REVENUE RECOGNITION**Disaggregation of Revenue**

The following table provides details of revenue by geography.

Revenue by Geography

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 |
|---|-----------------|-----------------|-----------------|
| Americas* | \$ 7,401 | \$ 7,951 | \$ 8,581 |
| Europe/Middle East/Africa** | 7,289 | 7,566 | 8,162 |
| Japan ⁺ | 3,037 | 2,925 | 2,936 |
| Asia Pacific ⁺⁺ | 1,625 | 1,838 | 2,117 |
| Total revenue | \$19,352 | \$20,279 | \$21,796 |

* Includes related party revenue of \$382 million in 2020, \$363 million in 2019 and \$369 million in 2018

** Includes related party revenue of \$124 million in 2020, \$118 million in 2019 and \$120 million in 2018

+ Includes related party revenue of \$70 million in 2020, \$67 million in 2019 and \$68 million in 2018

++ Includes related party revenue of \$68 million in 2020, \$65 million in 2019 and \$66 million in 2018

Remaining Performance Obligations

The remaining performance obligation (RPO) disclosure provides the aggregate amount of the transaction price yet to be recognized as of the end of the reporting period and an explanation as to when the Company expects to recognize these amounts in revenue. It is intended to be a statement of overall work under contract that has not yet been performed and does not include contracts in which the customer is not committed. The customer is not considered committed when they are able to terminate for convenience without payment of a substantive penalty. The disclosure also includes estimates of variable consideration. Additionally, as a practical expedient, the Company does not include contracts that have an original duration of one year or less. RPO estimates are subject to change and are affected by several factors, including terminations, changes in the scope of contracts, periodic revalidations, adjustment for revenue that has not materialized and adjustments for currency.

At December 31, 2020 the aggregate amount of the transaction price allocated to RPO related to customer contracts that are unsatisfied or partially unsatisfied was \$62 billion. Approximately 50 percent of

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Pursuant to 17 C.F.R. Section 200.83**

the amount is expected to be recognized as revenue in the subsequent two years, approximately 40 percent in the subsequent three to five years and the balance thereafter.

Revenue Recognized for Performance Obligations Satisfied (or Partially Satisfied) in Prior Periods

For the year ended December 31, 2020, revenue was reduced by \$21 million for performance obligations satisfied (or partially satisfied) in previous periods.

Reconciliation of Contract Balances

The following table provides information about notes and accounts receivable, contract assets and deferred income balances.

| (\$ in millions) At December 31: | 2020 | 2019 |
|--|---------|---------|
| Notes and accounts receivable (net of allowances of \$91 in 2020 and \$82 in 2019) | \$1,444 | \$1,790 |
| Contract assets* | 72 | 72 |
| Deferred income (current) | 854 | 896 |
| Deferred income (noncurrent) | 543 | 615 |

* Included within prepaid expenses and other current assets in the Combined Balance Sheet.

The amount of revenue recognized during the year ended December 31, 2020 that was included within the deferred income balance at December 31, 2019 was \$873 million.

The following table provides roll forwards of the notes and accounts receivable allowance for expected credit losses for the years ended December 31, 2020 and 2019.

| (\$ in millions) January 1, 2020 | Additions / (Releases) | Write-offs | Other* | December 31, 2020 |
|-------------------------------------|------------------------|------------|--------|-------------------|
| \$ 82 | \$25 | \$(7) | \$(9) | \$91 |
| January 1, 2019 | Additions / (Releases) | Write-offs | Other* | December 31, 2019 |
| \$ 111 | \$51 | \$(78) | \$(3) | \$82 |

* Primarily represents translation adjustments and reclassifications.

The contract assets allowance for expected credit losses was not material in the years ended December 31, 2020 and 2019.

Deferred Costs

| (\$ in millions) At December 31: | 2020 | 2019 |
|--|----------------|----------------|
| Capitalized costs to obtain a contract | \$ 269 | \$ 204 |
| Deferred costs to fulfill a contract | | |
| Deferred setup costs | 1,369 | 1,439 |
| Other deferred fulfillment costs* | 1,006 | 1,051 |
| Total deferred costs** | \$2,646 | \$2,694 |

* Includes related party cost of \$94 million at December 31, 2020 and \$21 million at December 31, 2019.

** Of the total deferred costs, \$1,205 million was current (related party \$76 million) and \$1,441 million was noncurrent (related party \$18 million) at December 31, 2020 and \$1,133 million was current (related party \$19 million) and \$1,561 million was noncurrent (related party \$2 million) at December 31, 2019.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

The amount of total deferred costs amortized during the year ended December 31, 2020 was \$2,061 million which includes amortization of deferred transition and set-up costs of \$478 million, amortization of prepaid software of \$901 million and amortization of prepaid subscription and support and other prepaid items of \$683 million. There were no material impairment losses incurred during 2020. Refer to note A, "Significant Accounting Policies," for additional information on deferred costs to fulfill a contract and capitalized costs of obtaining a contract.

NOTE D. SEGMENTS

The segments represent components of the Company for which separate financial information is available that is utilized on a regular basis by the chief operating decision maker (Infrastructure Services unit leader on a historical basis) in determining how to allocate resources and evaluate performance. The segments are determined based on several factors including client base, homogeneity of services offerings, delivery channels and similar economic characteristics.

Segment revenue and pre-tax income exclude any transactions between the segments and instead focuses on the external client view which is regularly assessed and reviewed by the chief operating decision maker. Intersegment revenue and pre-tax income primarily consists of fees for the utilization of global service delivery centers, and would therefore not be a meaningful metric to the readers of Kyndryl's financial statements.

The Company utilizes globally integrated support organizations to realize economies of scale and efficient use of resources. As a result, a considerable amount of expense is shared by all of the segments. This shared expense includes sales coverage, certain marketing functions, and support functions such as Accounting, Procurement, Legal, Human Resources, and Billing and Collections. Where practical, shared expenses are allocated on measurable drivers of expense, e.g., headcount. When a clear and measurable driver cannot be identified, shared expenses are allocated based on a financial basis that is consistent with the Company's management system, e.g. advertising expense is allocated based on the gross profit of the segments.

The following tables reflect the results of the Company's segments consistent with the management measurement system utilized within the Company. Performance measurement is based on pre-tax income. These results are used, in part, by the chief operating decision maker, both in evaluating the performance of, and in allocating resources to, each of the segments.

In 2020, the company recorded \$918 million in workforce rebalancing charges in the Combined Income Statement for severance and employee related benefits in accordance with the accounting guidance for ongoing benefit arrangements. The impact to pre-tax income by segment was as follows: EMEA \$722 million, Americas \$117 million, Asia Pacific \$51 million and Japan \$28 million. The company expects the majority of the employee exits to be completed by the end of 2021.

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Pursuant to 17 C.F.R. Section 200.83

Management System Segment View

| (\$ in millions) | Americas | EMEA | Japan | Asia Pacific | Total Segments |
|---|-----------------|------------------|----------------|----------------|------------------|
| For the year ended December 31, 2020 | | | | | |
| External revenue | \$7,018 | \$ 7,166 | \$2,966 | \$1,557 | \$18,707 |
| Related party revenue | 382 | 124 | 70 | 68 | 645 |
| Total revenue | <u>\$7,401</u> | <u>\$ 7,289</u> | <u>\$3,037</u> | <u>\$1,625</u> | <u>\$19,352</u> |
| Pre-tax income/(loss) | <u>\$ (313)</u> | <u>\$(1,825)</u> | <u>\$ 195</u> | <u>\$ 176</u> | <u>\$(1,766)</u> |
| Revenue year-to-year change | (6.9)% | (3.7)% | 3.8% | (11.6)% | (4.6)% |
| Pre-tax income/(loss) year-to-year change | nm | 97.0% | 9.3% | (7.6)% | 205.3% |
| Pre-tax income/(loss) margin | (4.2)% | (25.0)% | 6.4% | 10.8% | (9.1)% |
| For the year ended December 31, 2019 | | | | | |
| External revenue | \$7,588 | \$ 7,448 | \$2,858 | \$1,773 | \$19,666 |
| Related party revenue | 363 | 118 | 67 | 65 | 613 |
| Total revenue | <u>\$7,951</u> | <u>\$ 7,566</u> | <u>\$2,925</u> | <u>\$1,838</u> | <u>\$20,279</u> |
| Pre-tax income/(loss) | <u>\$ (22)</u> | <u>\$ (926)</u> | <u>\$ 179</u> | <u>\$ 191</u> | <u>\$(579)</u> |
| Revenue year-to-year change | (7.3)% | (7.3)% | (0.4)% | (13.2)% | (7.0)% |
| Pre-tax income/(loss) year-to-year change | nm | (7.9)% | 70.8% | 35.4% | (8.1)% |
| Pre-tax income/(loss) margin | (0.3)% | (12.2)% | 6.1% | 10.4% | (2.9)% |
| For the year ended December 31, 2018 | | | | | |
| External revenue | \$8,211 | \$ 8,042 | \$2,868 | \$2,051 | \$21,172 |
| Related party revenue | 369 | 120 | 68 | 66 | 623 |
| Total revenue | <u>\$8,581</u> | <u>\$ 8,162</u> | <u>\$2,936</u> | <u>\$2,117</u> | <u>\$21,796</u> |
| Pre-tax income/(loss) | <u>\$ 130</u> | <u>\$(1,006)</u> | <u>\$ 105</u> | <u>\$ 141</u> | <u>\$(630)</u> |
| Revenue year-to-year change | (2.1)% | 3.1% | 3.9% | (8.9)% | (0.2)% |
| Pre-tax income/(loss) year-to-year change | (26.5)% | 12.3% | (28.3)% | (20.5)% | 59.5% |
| Pre-tax income/(loss) margin | 1.5% | (12.3)% | 3.6% | 6.6% | (2.9)% |

nm — not meaningful

Segment Assets and Other Items

Each of the Company's segments contain similar asset categories such as accounts receivable, deferred contract costs, property and equipment, operating leases, and goodwill. Depreciation expense and capital expenditures that are reported by each segment also are consistent with the landlord ownership basis of asset assignment.

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Pursuant to 17 C.F.R. Section 200.83

Management System Segment View

| (\$ in millions) | Americas | EMEA | Japan | Asia Pacific | Total Segments |
|---|----------|---------|---------|--------------|----------------|
| 2020 | | | | | |
| Assets | \$3,934 | \$4,832 | \$1,390 | \$872 | \$11,029 |
| Depreciation/amortization of deferred costs and intangibles | 1,688 | 1,545 | 360 | 366 | 3,959 |
| Capital expenditures/investments in intangibles | 383 | 495 | 87 | 73 | 1,038 |
| Interest expense | 24 | 24 | 10 | 5 | 63 |
| 2019 | | | | | |
| Assets | \$4,355 | \$4,860 | \$1,327 | \$996 | \$11,537 |
| Depreciation/amortization of deferred costs and intangibles | 1,824 | 1,504 | 318 | 390 | 4,036 |
| Capital expenditures/investments in intangibles | 472 | 489 | 111 | 120 | 1,191 |
| Interest expense | 30 | 28 | 11 | 7 | 76 |
| 2018 | | | | | |
| Assets | \$4,299 | \$4,107 | \$1,272 | \$933 | \$10,612 |
| Depreciation/amortization of deferred costs and intangibles | 1,472 | 1,470 | 228 | 408 | 3,578 |
| Capital expenditures/investments in intangibles | 583 | 700 | 118 | 166 | 1,567 |
| Interest expense | 33 | 32 | 11 | 8 | 85 |

Reconciliations of Kyndryl as Reported

| (\$ in millions) At December 31: | 2020 | 2019 | 2018 |
|-------------------------------------|------------------------|------------------------|------------------------|
| Assets | | | |
| Total reportable segments | \$11,029 | \$11,537 | \$10,612 |
| Unallocated amounts | | | |
| Property and equipment | 21 | 10 | 26 |
| Deferred costs | 153 | 197 | 240 |
| Other | 2 | 0 | 7 |
| Total assets | <u>\$11,205</u> | <u>\$11,744</u> | <u>\$10,885</u> |

Major Clients

No single client represented 10 percent or more of the Company's total revenue in 2020, 2019 or 2018.

Geographic Information

The following provides information for those countries that are 10 percent or more of the specific category.

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

Revenue*

| (\$ in millions) At December 31: | 2020 | 2019 | 2018 |
|-------------------------------------|-----------------|-----------------|-----------------|
| United States | \$ 5,081 | \$ 5,340 | \$ 6,081 |
| Japan | 3,037 | 2,925 | 2,936 |
| Other countries | 11,235 | 12,015 | 12,779 |
| Total revenue | \$19,352 | \$20,279 | \$21,796 |

* Revenues are attributed to countries based on the location of the client.

Property and Equipment — Net

| (\$ in millions) At December 31: | 2020 | 2019 | 2018 |
|-------------------------------------|----------------|----------------|----------------|
| United States | \$ 922 | \$ 941 | \$ 966 |
| Canada | 430 | 454 | 415 |
| Japan | 384 | 364 | 372 |
| Other countries | 2,254 | 2,366 | 2,427 |
| Total | \$3,991 | \$4,125 | \$4,180 |

Refer to note F, "Property and Equipment," for more information on allocation methodologies.

Operating Right-of-Use Assets — Net*

| (\$ in millions) At December 31: | 2020 | 2019 | 2018 |
|-------------------------------------|----------------|----------------|-------------|
| Belgium | \$ 197 | \$ 213 | \$ — |
| Italy | 114 | 109 | — |
| United States | 66 | 69 | — |
| Other countries | 755 | 828 | — |
| Total | \$1,131 | \$1,218 | \$ — |

* Reflects the adoption of the FASB guidance on leases in 2019.

Refer to note G, "Leases," for more information on allocation methodologies.

NOTE E. TAXES

During the periods presented in the combined financial statements, Kyndryl's operations are included in the consolidated U.S. federal, certain state and local and foreign income tax returns filed by IBM, where applicable. The income tax provision included in these combined financial statements has been calculated using the separate return basis, as if Kyndryl filed separate tax returns. Post separation, Kyndryl's operating footprint as well as tax return elections and assertions are expected to be different and therefore, Kyndryl's hypothetical income taxes, as presented in the combined financial statements, are not expected to be indicative of the Company's future income taxes.

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 |
|---|-------------------|-----------------|-----------------|
| Income/(loss) before income taxes: | | | |
| U.S. operations | \$ (974) | \$(732) | \$(555) |
| Non-U.S. operations | (792) | 153 | (75) |
| Total income/(loss) before income taxes | \$ (1,766) | \$ (579) | \$ (630) |

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Pursuant to 17 C.F.R. Section 200.83

The provision for income taxes by geographic operations was as follows:

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 |
|---|--------------|--------------|--------------|
| U.S. operations | \$ 27 | \$ 36 | \$ 18 |
| Non-U.S. operations | 219 | 328 | 332 |
| Total provision for income taxes | \$246 | \$364 | \$350 |

The components of the provision for income taxes by taxing jurisdiction were as follows:

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 |
|---|--------------|--------------|--------------|
| U.S. federal: | | | |
| Current | \$ — | \$ — | \$ — |
| Deferred | — | — | (13) |
| | \$ — | \$ — | \$ (13) |
| U.S. state and local: | | | |
| Current | \$ — | \$ — | \$ — |
| Deferred | — | — | (3) |
| | \$ — | \$ — | \$ (3) |
| Non-U.S. | | | |
| Current | \$304 | \$411 | \$312 |
| Deferred | (58) | (47) | 54 |
| | \$246 | \$364 | \$366 |
| Total provision for income taxes | \$246 | \$364 | \$350 |

A reconciliation of the provision for/(benefit from) income taxes at the statutory U.S. federal tax rate to the Company's combined provision for income taxes was as follows:

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 |
|---|---------------|---------------|---------------|
| Statutory rate | \$(371) | \$(122) | \$(132) |
| Tax differential on foreign income | 104 | 109 | 136 |
| State and local | (49) | (37) | (28) |
| Valuation allowance | 460 | 342 | 281 |
| Reserves for uncertain tax positions | 86 | 40 | 41 |
| Intercompany prepayment | (12) | (3) | 27 |
| Undistributed foreign earnings | 18 | 20 | 19 |
| Other | 10 | 15 | 6 |
| Total provision for income taxes | \$ 246 | \$ 364 | \$ 350 |

The provision for income taxes for the periods presented was attributable to losses in certain jurisdictions that cannot be benefited and income tax expense in certain jurisdictions where taxable income is generated. The significant components of the provision include net change in valuation allowances recorded on benefits that cannot be recognized, tax differential on foreign income which includes the effects of foreign subsidiaries' earnings taxed at rates other than the U.S. statutory rate, as well as reserves for uncertain tax positions associated with current year activity.

The provision for income taxes for 2020 was \$246 million compared to \$364 million in 2019. The decrease in the provision was primarily driven by higher pre-tax losses in 2020 partially offset by an increase in valuation allowances in jurisdictions with losses. The provision for income taxes for 2019 was \$364 million

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

compared to \$350 million in 2018. The increase in the provision was primarily driven by lower pre-tax losses in 2019 and a change in valuation allowance associated with jurisdictions with losses.

U.S. tax reform introduced GILTI, which subjects a U.S. shareholder to current tax on income earned by certain foreign subsidiaries. GAAP allows companies to either (1) recognize deferred taxes for temporary differences that are expected to reverse as GILTI in future years or (2) account for taxes on GILTI as period costs in the year the tax is incurred. Beginning in 2018, IBM elected to include GILTI in measuring deferred taxes. The combined financial statements for Kyndryl have been prepared using the period cost method since there is no GILTI inclusion in the periods presented and deferred GILTI does not, and is not expected to have, a significant impact on the combined financial statements or when it is on a stand-alone basis, post separation.

A reconciliation of the beginning and ending amount of unrecognized tax benefits was as follows:

| (\$ in millions) | 2020 | 2019 | 2018 |
|---|-------------|-------------|-------------|
| Balance at January 1 | \$ — | \$ — | \$ — |
| Additions based on tax positions related to the current year | 86 | 40 | 41 |
| Additions for tax positions of prior years | — | — | — |
| Reductions for tax positions of prior years (including impacts due to a lapse of statute) | — | — | — |
| Settlements (closed out to Net Parent investment) | (86) | (40) | (41) |
| Balance at December 31 | \$ — | \$ — | \$ — |

The additions to unrecognized tax benefits related to each year presented were primarily attributable to non-U.S. tax matters including transfer pricing, which are immediately settled with Parent and are relieved through the Net Parent investment account in the Combined Balance Sheet and Net transfers from Parent in the Combined Statement of Cash Flows. The income tax provision has been prepared based on the assumption that any subsequent changes to the Company's income tax liability as a result of tax examinations are the responsibility of IBM. Therefore, the impact of any subsequent changes in assessment about the sustainability of related tax positions, including interest and penalties, are not presented in these combined financial statements. In addition, due to this basis of presentation, Kyndryl is deemed to not be subject to tax examination in any jurisdictions that could be reasonably expected to have a material impact on the combined financial statements. Given there are no reserves for unrecognized tax benefits presented, there is no expectation of a significant increase or decrease in the unrecognized tax benefits within the next 12 months. Upon separation, liabilities related to unrecognized tax benefits for which Kyndryl is liable and that are not included within Kyndryl's Combined Balance Sheet are expected to be reported within the post-separation Kyndryl balance sheet based upon tax authorities' ability to assert Kyndryl may be the primary obligor for historical taxes, among other factors.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes were as follows:

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

Deferred Tax Assets

| (\$ in millions) At December 31: | 2020 | 2019 | 2018 |
|---|----------------------|----------------------|----------------------|
| Retirement benefits | \$ 126 | \$ 107 | \$ 87 |
| Leases | 380 | 350 | — |
| Share-based and other compensation | 37 | 40 | 46 |
| Domestic tax loss/credit carryforwards | 643 | 405 | 192 |
| Deferred income | 50 | 52 | 85 |
| Foreign tax loss/credit carryforwards | 509 | 307 | 207 |
| Bad debt, inventory and warranty reserves | 37 | 51 | 39 |
| Depreciation | 123 | 128 | 72 |
| Restructuring charges | 59 | 11 | 5 |
| Section 163(j) interest limitation | 50 | 33 | 16 |
| Other | 91 | 71 | 57 |
| Gross deferred tax assets | <u>\$ 2,105</u> | <u>\$ 1,555</u> | <u>\$ 806</u> |
| Less: valuation allowance | <u>(1,110)</u> | <u>(650)</u> | <u>(308)</u> |
| Net deferred tax assets | <u><u>\$ 995</u></u> | <u><u>\$ 905</u></u> | <u><u>\$ 498</u></u> |

Deferred Tax Liabilities

| (\$ in millions) At December 31: | 2020 | 2019 | 2018 |
|---------------------------------------|---------------------|---------------------|---------------------|
| Depreciation | \$203 | \$212 | \$206 |
| Goodwill and intangible assets | 45 | 42 | 45 |
| Leases and right-of-use assets | 331 | 327 | — |
| Undistributed foreign earnings | 57 | 39 | 19 |
| Other | 12 | 17 | 11 |
| Gross deferred tax liabilities | <u><u>\$648</u></u> | <u><u>\$637</u></u> | <u><u>\$281</u></u> |

Amounts presented in the deferred tax table above, calculated on a hypothetical separate return basis, are expected to be different from the amounts reflected in the opening post-separation balance sheet of Kyndryl, based upon the impacts of the separation and application of local law, among other factors.

The Company has operations in federal and certain state and local and foreign jurisdictions that on a hypothetical separate return basis would have tax credits and net operating loss carryforwards. Tax attributes have been reported based on the hypothetical separate return basis results for the periods presented in the combined financial statements. As of December 31, 2020, the Company had domestic and foreign net operating loss carryforwards, the tax effect of which was \$1,019 million, as well as \$133 million of domestic and foreign credit carryforwards. Substantially all of the carryforwards are not available for use following the separation and therefore the carryforward periods are not relevant.

The valuation allowances as of December 31, 2020, 2019 and 2018 were \$1,110 million, \$650 million and \$308 million, respectively. The additions to valuation allowances for the years ended December 31, 2020, 2019, and 2018 were \$460 million, \$342 million, and \$281 million, respectively, and principally relate to foreign and domestic net operating loss and credit carryforwards determined on a hypothetical separate return basis, which in the opinion of management are not more likely than not to be realized when assessed on a hypothetical separate return basis.

At December 31, 2020 Kyndryl's undistributed after-tax earnings from certain non-U.S. subsidiaries were not indefinitely reinvested for which the Company has a deferred tax liability of \$57 million for the estimated taxes associated with the repatriation of these earnings. Undistributed earnings of approximately

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

\$221 million and other outside basis differences in foreign subsidiaries were indefinitely reinvested in foreign operations. Quantification of the deferred tax liability, if any, associated with indefinitely reinvested earnings and outside basis differences was not practicable.

NOTE F. PROPERTY AND EQUIPMENT

| (\$ in millions) At December 31: | 2020 | 2019 |
|---|-----------------|-----------------|
| Information technology equipment | \$10,005 | \$ 9,621 |
| Buildings and building and leasehold improvements | 2,968 | 2,858 |
| Office and other equipment | 346 | 369 |
| Land and land improvements | 149 | 140 |
| Property and equipment – gross | \$13,468 | \$12,988 |
| Less: Accumulated depreciation | 9,478 | 8,863 |
| Property and equipment – net | <u>\$ 3,991</u> | <u>\$ 4,125</u> |

The Company's property and equipment reflected in the Combined Balance Sheet is based on an allocation of IBM's balances depending on the type of asset. Information technology equipment balances relating to assets specifically utilized by the Company were fully allocated to the Company. Leasehold improvements associated with leases attributed to Kyndryl were fully allocated to the Company. The remaining asset balances representing assets associated with space (land, buildings, and office and other equipment in the space) were allocated based on the percentage of space utilized.

NOTE G. LEASES

The following tables presents the various components of lease costs:

| (\$ in millions) For the year ended December 31: | 2020 | 2019 |
|---|--------------|--------------|
| Finance lease cost | \$ 61 | \$ 18 |
| Operating lease cost | 424 | 429 |
| Short-term lease cost | 10 | 12 |
| Variable lease cost | 114 | 124 |
| Sublease income | (4) | (2) |
| Total lease cost | <u>\$605</u> | <u>\$581</u> |

The Company's ROU assets and lease liabilities reflected in the Combined Balance Sheet are based on an allocation of IBM's balances depending on the type of lease. Finance lease balances relating to assets specifically utilized by the Company were fully allocated to the Company. The real estate lease balances were allocated based on the percentage of space utilized. The remaining lease balances were allocated to the Company based on headcount.

The Company had no sale and leaseback transactions for the years ended December 31, 2020 and 2019.

Rental expense, including amounts charged to fixed assets and excluding amounts previously reserved, was \$455 million for the year ended December 31, 2018.

The following table presents supplemental information relating to the cash flows arising from lease transactions. Cash payments related to variable lease costs and short-term leases are not included in the measurement of operating and finance lease liabilities, and, as such, are excluded from the amounts below.

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

| (\$ in millions) For the year ended December 31: | 2020 | 2019 |
|--|------|--------|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash outflows from finance leases | \$ 3 | \$ 1 |
| Financing cash outflows from finance leases | 72 | 19 |
| Operating cash outflows from operating leases | 450 | 454 |
| ROU assets obtained in exchange for new finance lease liabilities | 129 | 147* |
| ROU assets obtained in exchange for new operating lease liabilities | 336 | 1,647* |

* Includes opening balance additions as a result of the adoption of the new lease guidance effective January 1, 2019. The post adoption addition of leases for the year ended December 31, 2019 was \$430 million for operating leases and \$141 million for finance leases.

The following table presents the weighted-average lease term and discount rate for finance and operating leases:

| At December 31: | 2020 | 2019 |
|---------------------------------------|----------|----------|
| Finance leases | | |
| Weighted-average remaining lease term | 3.5 yrs. | 3.8 yrs. |
| Weighted-average discount rate | 1.35% | 1.55% |
| Operating leases | | |
| Weighted-average remaining lease term | 5.7 yrs. | 6.0 yrs. |
| Weighted-average discount rate | 2.19% | 2.59% |

The following table presents a maturity analysis of expected undiscounted cash flows for operating and finance leases on an annual basis for the next five years and thereafter.

| (\$ in millions) | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter | Imputed Interest | Total** |
|------------------|-------|-------|-------|-------|------|------------|---------------------|---------|
| Finance leases | \$ 73 | \$ 63 | \$ 47 | \$ 24 | \$ 8 | \$ 0 | \$ (7) | \$ 209 |
| Operating leases | \$353 | \$274 | \$185 | \$123 | \$97 | \$215 | \$(64) | \$1,183 |

* Imputed interest represents the difference between undiscounted cash flows and discounted cash flows.

** The Company entered into lease agreements for certain facilities and equipment with payments totaling approximately \$46 million that have not yet commenced as of December 31, 2020, and therefore are not included in this table.

The following table presents the total amount of finance leases recognized in the Combined Balance Sheet:

| At December 31: | 2020 | 2019 |
|------------------------------------|-------|-------|
| ROU Assets- Property and equipment | \$201 | \$130 |
| Lease Liabilities: | | |
| Short-term debt | \$ 69 | \$ 42 |
| Long-term debt | \$140 | \$100 |

NOTE H. INTANGIBLE ASSETS INCLUDING GOODWILL**Intangible Assets**

The following tables present the Company's intangible asset balances by major asset class:

| (\$ in millions) At December 31, 2020: | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|--------------------------|-----------------------------|------------------------|
| Intangible asset class | | | |
| Capitalized software | \$ 7 | \$ (4) | \$ 3 |
| Client relationships | 130 | (77) | 53 |
| Completed technology | 20 | (17) | 3 |
| Patents/trademarks | 2 | (2) | 0 |
| Total | <u>\$159</u> | <u>\$(99)</u> | <u>\$60</u> |

| (\$ in millions) At December 31, 2019: | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|--------------------------|-----------------------------|------------------------|
| Intangible asset class | | | |
| Capitalized software | \$ 7 | \$ (3) | \$ 4 |
| Client relationships | 130 | (58) | 72 |
| Completed technology | 38 | (27) | 10 |
| Patents/trademarks | 6 | (4) | 1 |
| Total | <u>\$181</u> | <u>\$(93)</u> | <u>\$87</u> |

There was no impairment of intangible assets recorded in 2020, 2019 and 2018. The net carrying amount of intangible assets decreased \$28 million during the year ended December 31, 2020, primarily due to intangible asset amortization. The aggregate intangible amortization expense was \$29 million for the years ended December 31, 2020, 2019 and 2018. In addition, in the year ended December 31, 2020, the Company retired \$23 million of fully amortized intangible assets, impacting both the gross carrying amount and accumulated amortization by this amount. There was no retirement of intangible assets in the year ended December 31, 2019.

The future amortization expense relating to intangible assets currently recorded in the Combined Balance Sheet is estimated to be the following at December 31, 2020:

| (\$ in millions) | Capitalized Software | Acquired Intangibles | Total |
|------------------|-------------------------|-------------------------|-------|
| 2021 | \$ 2 | \$22 | \$24 |
| 2022 | 1 | 18 | 19 |
| 2023 | 0 | 10 | 11 |
| 2024 | — | 6 | 6 |
| 2025 | — | — | — |
| Thereafter | — | — | — |

Goodwill

Goodwill attributed to the Company represents the historical goodwill balances in the Parent's managed infrastructure services business arising from acquisitions specific to the Company. The changes in the goodwill balances by reportable segment for the years ended December 31, 2020 and 2019 are as follows:

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

| (\$ in millions) Segment | Balance at January 1, 2020 | Foreign Currency Translation and Other Adjustments* | Balance at December 31, 2020 |
|-----------------------------|-------------------------------|---|---------------------------------|
| Americas | \$ 416 | \$24 | \$ 440 |
| EMEA | 272 | 16 | 288 |
| Japan | 401 | 23 | 424 |
| Asia Pacific | 74 | 4 | 78 |
| Total | <u>\$1,162</u> | <u>\$67</u> | <u>\$1,230</u> |

| (\$ in millions) Segment | Balance at January 1, 2019 | Foreign Currency Translation and Other Adjustments* | Balance at December 31, 2019 |
|-----------------------------|-------------------------------|---|---------------------------------|
| Americas | \$ 418 | \$(2) | \$ 416 |
| EMEA | 274 | (2) | 272 |
| Japan | 403 | (2) | 401 |
| Asia Pacific | 74 | (0) | 74 |
| Total | <u>\$1,169</u> | <u>\$(6)</u> | <u>\$1,162</u> |

* Primarily driven by foreign currency translation.

There were no goodwill impairment losses recorded during 2020, 2019 or 2018 and the Company has no accumulated impairment losses. As of December 31, 2020, the EMEA reporting unit had an estimated fair value that exceeded its carrying amount by 23 percent. Each of the other reporting units with goodwill had a fair value that was substantially in excess of its carrying value.

NOTE I. BORROWINGS

Short-Term Debt

| (\$ in millions) At December 31: | 2020 | 2019 |
|-------------------------------------|------|------|
| Finance lease obligations | \$69 | \$42 |

Long-Term Debt

| (\$ in millions) At December 31: | Maturities | 2020 | 2019 |
|-------------------------------------|-------------|---------------------|---------------------|
| Finance lease obligations (1.3%) | 2021 – 2026 | \$209 | \$142 |
| Less: current maturities | | 69 | 42 |
| Total | | <u>\$140</u> | <u>\$100</u> |

Long-term debt is comprised of finance lease liabilities.

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

Contractual obligations of long-term debt outstanding at December 31, 2020, are as follows:

| (\$ in millions) | Total |
|------------------|---------------------|
| 2021 | \$ 69 |
| 2022 | 62 |
| 2023 | 47 |
| 2024 | 23 |
| 2025 | 8 |
| Thereafter | — |
| Total | <u>\$209</u> |

Interest on Debt

Interest expense for the years ended December 31, 2020, 2019 and 2018 was \$63 million, \$76 million and \$85 million, respectively. Interest capitalized for the periods presented was immaterial. Interest in the Combined Income Statement reflects the allocation of interest expense on borrowing and funding related activity associated with debt issued by IBM for which a portion of the proceeds benefited Kyndryl. Such Parent debt has not been attributed to the Company for any periods presented because Parent's borrowings are not the legal obligation of the Company. Refer to note O, "Related Party Transactions," for more information on the allocation of Parent's corporate expenses.

NOTE J. OTHER LIABILITIES

| (\$ in millions) | 2020 | 2019 |
|---|---------------------|---------------------|
| At December 31: | | |
| Workforce rebalancing | \$595 | \$ 46 |
| Employee related taxes | 103 | 89 |
| Other | 176 | 270 |
| Other accrued expenses and liabilities | <u>\$874</u> | <u>\$406</u> |
| Workforce rebalancing | \$ 82 | \$ 31 |
| Disability benefits | 76 | 87 |
| Asset retirement obligations | 21 | 18 |
| Deferred taxes | 78 | 80 |
| Other | 25 | 78 |
| Other non-current liabilities | <u>\$282</u> | <u>\$294</u> |

In response to changing business needs, the Company periodically takes workforce rebalancing actions to improve productivity, cost competitiveness and to rebalance skills. The noncurrent liabilities are workforce accruals primarily related to terminated employees who are no longer working for the Company who were granted annual payments to supplement their incomes in certain countries. Depending on the individual country's legal requirements, these required payments will continue until the former employee begins receiving pension benefits or passes away. The total amounts accrued for workforce rebalancing, including amounts classified as other accrued expenses and liabilities in the Combined Balance Sheet were \$677 million and \$77 million at December 31, 2020 and 2019, respectively. The increase in the total amount accrued as of December 31, 2020 relates to the workforce rebalancing actions in 2020, of which, \$563 million was recorded in the fourth quarter in selling, general and administrative expense in the Combined Income Statement for severance and employee related benefits in accordance with the accounting guidance for ongoing benefit arrangements.

As of December 31, 2020, the Company was unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation AROs. These conditional AROs are primarily related to the encapsulated structural fireproofing that is not subject to abatement unless the buildings are demolished and non-encapsulated asbestos that the Company would remediate only if it performed major renovations of certain existing buildings. Because these conditional obligations have indeterminate settlement dates, the Company could not develop a reasonable estimate of their fair values. The Company will continue to assess its ability to estimate fair values at each future reporting date. The related liability will be recognized once sufficient additional information becomes available. The total amounts accrued for ARO liabilities,

including amounts classified as current in the Combined Balance Sheet were \$29 million at both December 31, 2020 and 2019.

NOTE K. COMMITMENTS AND CONTINGENCIES

Commitments

The Company has applied the guidance requiring a guarantor to disclose certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote. The Company guarantees certain loans and financial commitments. The maximum potential future payment under these financial guarantees and the fair value of these guarantees recognized in the Combined Balance Sheet at December 31, 2020 and December 31, 2019 were not material.

Contingencies

As a company with approximately 90,000 employees and with clients around the world, Kyndryl is subject to, or could become subject to, either as plaintiff or defendant, a variety of contingencies, including claims, demands and suits, investigations, tax matters, and proceedings that arise from time to time in the ordinary course of its business. Given the rapidly evolving external landscape of cybersecurity, privacy and data protection laws, regulations and threat actors, the Company or its clients could become subject to actions or proceedings in various jurisdictions. Also, as is typical for companies of Kyndryl's scope and scale, the Company is subject to, or could become subject to, actions and proceedings in various jurisdictions involving a wide range of labor and employment issues (including matters related to contested employment decisions, country-specific labor and employment laws, and the Company's benefit plans), as well as actions with respect to contracts, securities, foreign operations, competition law and environmental matters. These actions may be commenced by a number of different parties, including competitors, clients, employees, government and regulatory agencies, stockholders and representatives of the locations in which the Company does business. Some of the actions to which the Company is, or may become, party may involve particularly complex technical issues, and some actions may raise novel questions under the laws of the various jurisdictions in which these matters arise. Additionally, the Company is, or may be, a party to agreements pursuant to which it may be obligated to indemnify the other party with respect to certain matters.

The Company records a provision with respect to a claim, suit, investigation or proceeding when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In accordance with the relevant accounting guidance, the Company provides disclosures of matters for which the likelihood of material loss is at least reasonably possible. As of December 31, 2020, there were no such matters. In addition, the Company may also disclose matters based on its consideration of other matters and qualitative factors, including the experience of other companies in the industry, and investor, customer and employee relations considerations.

The Company reviews claims, suits, investigations and proceedings at least quarterly, and decisions are made with respect to recording or adjusting provisions and disclosing reasonably possible losses or range of losses (individually or in the aggregate), to reflect the impact and status of settlement discussions, discovery, procedural and substantive rulings, reviews by counsel and other information pertinent to a particular matter.

Whether any losses, damages or remedies finally determined in any claim, suit, investigation or proceeding could reasonably have a material effect on the Company's business, financial condition, results of operations or cash flows will depend on a number of variables, including: the timing and amount of such losses or damages; the structure and type of any such remedies; the significance of the impact any such losses, damages or remedies may have in the combined financial statements; and the unique facts and circumstances of the particular matter that may give rise to additional factors. While the Company will continue to defend itself vigorously, it is possible that the Company's business, financial condition, results of operations or cash flows could be affected in any particular period by the resolution of one or more of these matters.

The following is a summary of a significant legal matter relating to the Company.

On May 13, 2010, IBM and the State of Indiana (acting on behalf of the Indiana Family and Social Services Administration) sued one another in a dispute over a 2006 contract regarding the modernization of

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

social service program processing in Indiana, with IBM service provided by the managed infrastructure services business in its GTS segment. Multiple trials and appeals resulted in a net award of \$78 million to the State of Indiana, plus interest. IBM paid the judgment plus interest in full in January and April of 2020, after which the State of Indiana sought additional interest, which both the Indiana Superior Court and the Indiana Court of Appeals denied. The Indiana Supreme Court declined further review.

NOTE L. EQUITY ACTIVITY

The Company had no available-for-sale securities or cash flow hedges during the periods presented in the following tables:

Reclassifications and Taxes Related to Items of Other Comprehensive Income

| (\$ in millions) For the year ended December 31, 2020: | Before Tax Amount | Tax (Expense)/ Benefit | Net of Tax Amount |
|---|----------------------|---------------------------|----------------------|
| Other comprehensive income/(loss): | | | |
| Foreign currency translation adjustments | \$125 | \$ — | \$125 |
| Retirement-related benefit plans⁽¹⁾: | | | |
| Prior service costs/(credits) | \$ 0 | \$ 0 | \$ 0 |
| Net (losses)/gains arising during the period | (41) | 13 | (28) |
| Curtailments and settlements | 0 | 0 | 0 |
| Amortization of prior service (credits)/costs | (1) | 0 | 0 |
| Amortization of net (gains)/losses | 36 | (12) | 24 |
| Total retirement-related benefit plans | \$ (6) | \$ 2 | \$ (4) |
| Other comprehensive income/(loss) | \$119 | \$ 2 | \$121 |

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note N, "Retirement-Related Benefits," for additional information.

| (\$ in millions) For the year ended December 31, 2019: | Before Tax Amount | Tax (Expense)/ Benefit | Net of Tax Amount |
|---|----------------------|---------------------------|----------------------|
| Other comprehensive income/(loss): | | | |
| Foreign currency translation adjustments | \$ 12 | \$— | \$ 12 |
| Retirement-related benefit plans⁽¹⁾: | | | |
| Prior service costs/(credits) | \$ (1) | \$— | \$ (1) |
| Net (losses)/gains arising during the period | (84) | 27 | (57) |
| Curtailments and settlements | 0 | 0 | 0 |
| Amortization of prior service (credits)/costs | 0 | 0 | 0 |
| Amortization of net (gains)/losses | 27 | (9) | 18 |
| Total retirement-related benefit plans | \$ (57) | \$18 | \$ (39) |
| Other comprehensive income/(loss) | \$ (45) | \$18 | \$ (27) |

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note N, "Retirement-Related Benefits," for additional information.

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

| (\$ in millions) For the year ended December 31, 2018: | Before Tax Amount | Tax (Expense)/ Benefit | Net of Tax Amount |
|---|-----------------------|---------------------------|-----------------------|
| Other comprehensive income/(loss): | | | |
| Foreign currency translation adjustments | \$(240) | \$— | \$(240) |
| Retirement-related benefit plans⁽¹⁾: | | | |
| Prior service costs/(credits) | \$ 1 | \$ 0 | \$ 1 |
| Net (losses)/gains arising during the period | (33) | 10 | (23) |
| Amortization of prior service (credits)/costs | (1) | 0 | 0 |
| Amortization of net (gains)/losses | 28 | (8) | 20 |
| Total retirement-related benefit plans | \$ (4) | \$ 2 | \$ (3) |
| Other comprehensive income/(loss) | <u>\$(244)</u> | <u>\$ 2</u> | <u>\$(243)</u> |

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note N, "Retirement-Related Benefits," for additional information.

Accumulated Other Comprehensive Income/(Loss) (net of tax)

| (\$ in millions) | Foreign Currency Translation Adjustments* | Net Change Retirement- Related Benefit Plans | Accumulated Other Comprehensive Income/(Loss) |
|-------------------------------------|--|--|--|
| December 31, 2017 | <u>\$ (779)</u> | <u>\$ (172)</u> | <u>\$ (950)</u> |
| Other comprehensive income/(loss)** | (240) | (3) | (243) |
| December 31, 2018 | <u>\$(1,019)</u> | <u>\$ (175)</u> | <u>\$ (1,193)</u> |
| Other comprehensive income/(loss)** | 12 | (39) | (27) |
| December 31, 2019 | <u>\$(1,007)</u> | <u>\$ (214)</u> | <u>\$ (1,220)</u> |
| Other comprehensive income/(loss)** | 125 | (4) | 121 |
| December 31, 2020 | <u>\$ (882)</u> | <u>\$ (218)</u> | <u>\$ (1,100)</u> |

* Foreign currency translation adjustments are presented gross.

** No amounts were reclassified from accumulated other comprehensive income.

NOTE M. STOCK-BASED COMPENSATION

The Company participates in various IBM stock-based compensation plans, including incentive compensation plans and employee stock purchase plan. All awards granted under the plans are based on IBM's common shares and, as such, are reflected in the Parent's Consolidated Statement of Stockholders' Equity and not in the Company's Combined Statement of Equity. Stock-based compensation cost is based on the awards and terms previously granted to employees by the Parent.

Compensation cost associated with Kyndryl employees' participation in the Parent's incentive plans have been identified for employees who exclusively support Kyndryl operations. Amounts allocated to the Company from the Parent for shared services are reported within total allocated costs in note O, "Related Party Transactions."

The following table presents stock-based compensation cost associated with employees who exclusively support the Company and is included in net income/(loss).

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 |
|---|--------------|--------------|--------------|
| Cost | \$ 26 | \$ 15 | \$ 16 |
| SG&A expense | 36 | 34 | 40 |
| RD&E expense | 1 | 1 | 1 |
| Pre-tax stock-based compensation cost | \$ 64 | \$ 51 | \$ 57 |
| Income tax benefits | (14) | (12) | (13) |
| Net stock-based compensation cost | <u>\$ 49</u> | <u>\$ 40</u> | <u>\$ 44</u> |

The Company's total unrecognized compensation cost related to non-vested awards at December 31, 2020 was \$95 million and is expected to be recognized over a weighted-average period of approximately 2.2 years. If there are any modifications or cancellations of the underlying unvested awards, the Company may be required to accelerate, increase or cancel all or a portion of the remaining unearned stock-based compensation expense. Future unearned stock-based compensation will increase to the extent the Company grants additional equity awards, changes incentive awards terms, or assumes unvested equity awards in connection with acquisitions.

Capitalized stock-based compensation cost was not material at December 31, 2020, 2019 and 2018.

Incentive Awards

Stock-based incentive awards were provided to employees under the terms of IBM's long-term performance plans (the Plans). Awards under the Plans principally include Restricted Stock Units (RSUs) and Performance Share Units (PSUs).

The following table summarizes RSU and PSU activity under the Plans associated with employees who exclusively support the Company during the years ended December 31, 2020, 2019 and 2018.

| | RSUs | | PSUs | |
|--|---------------------------------|--------------------|---------------------------------|--------------------|
| | Weighted-Average Grant Price | Number of Units | Weighted-Average Grant Price | Number of Units |
| Balance at January 1, 2018 | \$141 | 688,048 | \$144 | 151,383 |
| Awards granted | 121 | 386,581 | 130 | 51,949 |
| Awards released | 148 | (207,491) | 152 | (38,069) |
| Awards canceled/forfeited/performance adjusted | 139 | (78,766) | 147 | (27,000)* |
| Balance at December 31, 2018 | <u>\$130</u> | <u>788,372</u> | <u>\$136</u> | <u>138,262**</u> |
| Awards granted | 119 | 454,465 | 117 | 79,741 |
| Awards released | 136 | (252,935) | 140 | (48,379) |
| Awards canceled/forfeited/performance adjusted | 128 | (78,970) | 131 | (6,406)* |
| Balance at December 31, 2019 | <u>\$123</u> | <u>910,932</u> | <u>\$126</u> | <u>163,219**</u> |
| Awards granted | 115 | 856,672 | 117 | 90,434 |
| Awards released | 126 | (304,102) | 137 | (36,054) |
| Awards canceled/forfeited/performance adjusted | 121 | (104,603) | 125 | (14,665)* |
| Balance at December 31, 2020 | <u>\$117</u> | <u>1,358,900</u> | <u>\$120</u> | <u>202,934**</u> |

* Includes adjustments of (4,005), (488) and (18,749) PSUs for 2020, 2019 and 2018, respectively, because final performance metrics were above or below specified targets.

** Represents the number of shares expected to be issued based on achievement of grant date performance targets. The actual number of shares issued will depend on final performance against specified targets over the vesting period.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

The total fair value of RSUs and PSUs granted and vested to employees wholly dedicated to the Company during the years ended December 31, 2020, 2019 and 2018 were as follows:

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 |
|---|------|------|------|
| RSUs: | | | |
| Granted | \$96 | \$53 | \$46 |
| Vested | \$32 | \$29 | \$26 |
| PSUs: | | | |
| Granted | \$11 | \$10 | \$ 7 |
| Vested | \$ 4 | \$ 5 | \$ 4 |

Stock Options

In 2016, IBM made one grant of 1.5 million premium-priced stock options. As of December 31, 2020, these vested options had a remaining weighted-average contractual life of approximately 5.1 years and had no intrinsic value.

Stock options outstanding as a result of the Parent's conversion of stock-based awards previously granted by acquired entities was immaterial for all periods presented.

IBM Employees Stock Purchase Plan

Prior to the separation, eligible employees may participate in IBM's non-compensatory Employees Stock Purchase Plan (ESPP). The ESPP enables eligible participants to purchase shares of IBM common stock at a discount through payroll deductions of up to 10 percent of eligible compensation during the offer period. The ESPP provides for semi-annual offering periods and continues as long as shares remain available under the ESPP. Individual ESPP participants are restricted from purchasing more than \$25,000 of common stock in one calendar year or 1,000 shares in an offering period.

No stock-based compensation expense was recorded in connection with employee purchases of ESPP because the criteria of a non-compensatory plan were met.

NOTE N. RETIREMENT-RELATED BENEFITS

Description of Plans

The Company sponsors defined benefit pension plans and other nonpension postretirement benefit plans. The defined benefit pension plans cover certain non-U.S. employees and retirees, and the pension benefits are based principally on employees years of service and/or compensation levels at or near retirement. These plans are accounted for as defined benefit pension plans for purposes of the combined financial statements. Accordingly, the net benefit plan obligations and the related benefit plan expenses of those plans have been recorded in the Company's combined financial statements. The nonpension postretirement benefit plans cover certain non-U.S. employees and retirees and provides a fixed monthly dollar credit for retiree health care expense. The benefit obligation and related expenses for these plans are included in the combined financial statements.

Additionally, certain Company employees participate in multi-employer defined benefit pension plans and post-retirement health plans as well as defined contribution plans that are sponsored by the Parent, which also includes other participants. Accordingly, the Company does not record an asset or liability to recognize the funded status. However, the Company records service cost and defined contribution cost attributable to its employees who participate in the multi-employer and the defined contribution plans, as well as expense allocated for certain corporate and shared functional employees. These amounts are included in the Combined Income Statement.

Plan Financial Information

The Company's defined contribution expense for the years ended December 31, 2020, 2019 and 2018 was \$194 million, \$207 million, and \$208 million, respectively.

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Pursuant to 17 C.F.R. Section 200.83**

The following table presents the components of net periodic (income)/cost of the retirement-related benefit plans recognized in the Combined Income Statement, excluding defined contribution plans.

| (\$ in millions) | For the year ended December 31, | | | | | |
|---|----------------------------------|--------------|--------------|--|-------------|-------------|
| | Defined Benefit Pension Plans | | | Nonpension Postretirement Benefit Plans | | |
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Service cost* | \$109 | \$101 | \$118 | \$ 3 | \$ 3 | \$ 4 |
| Interest cost** | 10 | 17 | 17 | 1 | 1 | 1 |
| Expected return on plan assets** | (24) | (27) | (21) | (1) | (1) | 0 |
| Amortization of prior service costs/(credits)** | (1) | 0 | (1) | — | — | — |
| Recognized actuarial losses** | 36 | 26 | 28 | 0 | 0 | 0 |
| Curtailments and settlements** | 0 | 0 | — | — | — | — |
| Multi-employer plans/other costs ⁺ | 13 | 20 | 34 | — | — | — |
| Total net periodic (income)/cost | <u>\$143</u> | <u>\$138</u> | <u>\$175</u> | <u>\$ 3</u> | <u>\$ 4</u> | <u>\$ 4</u> |

* Represents service costs of \$16 million in both 2020 and 2019, and \$18 million in 2018 attributable to self-sponsored plans as well as \$96 million, \$89 million, and \$104 million in 2020, 2019 and 2018, respectively, attributable to allocations of costs for plans sponsored by the Parent.

** These components of net periodic pension costs are included in other (income) and expense in the Combined Income Statement.

+ Represents third-party plans.

The following table presents the changes in net benefit obligation and plan assets, excluding defined contribution plans.

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Pursuant to 17 C.F.R. Section 200.83

| (\$ in millions) | Defined Benefit Pension Plans | | Nonpension Postretirement Benefit Plans | |
|---|-------------------------------|-----------------|---|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| Change in benefit obligation | | | | |
| Benefit obligation at January 1 | \$1,099 | \$1,004 | \$ 13 | \$ 13 |
| Service cost* | 15 | 15 | 1 | 1 |
| Interest cost | 10 | 17 | 1 | 1 |
| Plan participants' contributions | — | — | — | — |
| Acquisitions/divestitures, net | (12) | (3) | — | — |
| Actuarial losses/(gains) | 33 | 117 | (1) | (1) |
| Benefits paid from trust | (21) | (17) | — | — |
| Direct benefit payments | (19) | (16) | 0 | 0 |
| Foreign exchange impact | 97 | (17) | 0 | 0 |
| Amendments/curtailments/settlements/other | 0 | (1) | 0 | 0 |
| Benefit obligation at December 31 | <u>\$1,202</u> | <u>\$1,099</u> | <u>\$ 13</u> | <u>\$ 13</u> |
| Change in plan assets | | | | |
| Fair value of plan assets at January 1 | \$ 612 | \$ 574 | \$ 12 | \$ 11 |
| Actual return on plan assets | 13 | 61 | 2 | 1 |
| Employer contributions | 4 | 4 | — | — |
| Acquisitions/divestitures, net | (10) | — | — | — |
| Plan participants' contributions | 0 | 0 | — | — |
| Benefits paid from trust | (21) | (17) | — | — |
| Foreign exchange impact | 56 | (11) | (1) | 0 |
| Amendments/curtailments/settlements/other | 0 | 1 | — | 0 |
| Fair value of plan assets at December 31 | <u>\$ 654</u> | <u>\$ 612</u> | <u>\$ 13</u> | <u>\$ 12</u> |
| Funded status at December 31 | <u>\$ (548)</u> | <u>\$ (488)</u> | <u>\$ 0</u> | <u>\$ (1)</u> |
| Accumulated benefit obligation** | \$1,171 | \$1,066 | N/A | N/A |

* Represents service costs attributable to self-sponsored plans.

** Represents the benefit obligation assuming no future participant compensation increases.

N/A — Not applicable

The following table presents the amounts recorded in the Combined Balance Sheet.

| (\$ in millions) | Non U.S. Plans | | | |
|---|-------------------------------|----------------|---|---------------|
| | Defined Benefit Pension Plans | | Nonpension Postretirement Benefit Plans | |
| | 2020 | 2019 | 2020 | 2019 |
| At December 31: | | | | |
| Prepaid pension assets | \$ 0 | \$ 0 | \$ 1 | \$ 0 |
| Current liabilities – compensation and benefits | 0 | 0 | — | — |
| Noncurrent liabilities – retirement and nonpension postretirement benefit obligations | (548) | (487) | (1) | (1) |
| Funded status – net | <u>\$(548)</u> | <u>\$(488)</u> | <u>\$ 0</u> | <u>\$ (1)</u> |

The following table presents information for defined benefit plans with accumulated benefit obligations (ABO) or projected benefit obligations (PBO) in excess of plan assets.

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

| (\$ in millions) At December 31: | 2020 | | 2019 | |
|-------------------------------------|-----------------------|----------------|-----------------------|----------------|
| | Benefit Obligation | Plan Assets | Benefit Obligation | Plan Assets |
| PBO in excess of plan assets | \$1,202 | \$654 | \$1,099 | \$612 |
| ABO in excess of plan assets | 1,079 | 561 | 971 | 514 |
| Plan assets in excess of PBO | 0 | 0 | 0 | 0 |

The following table presents information for the nonpension postretirement benefit plans with accumulated postretirement benefit obligations (APBO) in excess of plan assets.

| (\$ in millions) At December 31: | 2020 | | 2019 | |
|-------------------------------------|-----------------------|----------------|-----------------------|----------------|
| | Benefit Obligation | Plan Assets | Benefit Obligation | Plan Assets |
| APBO in excess of plan assets | \$ 1 | \$ 0 | \$ 1 | \$ 0 |
| Plan assets in excess of APBO | 12 | 13 | 12 | 12 |

The following table presents the pre-tax net loss and prior service costs/(credits) recognized in OCI and the changes in pre-tax net loss and prior service costs/(credits) recognized in AOCI for the retirement-related benefits plans.

| (\$ in millions) | Defined Benefit Pension Plans | | Nonpension Postretirement Benefit Plans | |
|---|----------------------------------|--------|---|--------|
| | 2020 | 2019 | 2020 | 2019 |
| | Net loss/(gain) at January 1 | \$307 | \$ 250 | \$ (1) |
| Current period loss/(gain) | 43 | 84(2) | 0 | |
| Curtailments and settlements | 0 | 0 | — | — |
| Amortization of net loss included in net periodic (income)/cost | (36) | (27) | 0 | 0 |
| Net loss/(gain) at December 31 | \$314 | \$ 307 | \$ (2) | \$ (1) |
| Prior service costs/(credits) at January 1 | (3) | (3) | — | — |
| Current period prior service costs/(credits) | 0 | 1 | — | — |
| Amortization for prior service (costs)/credits included in net periodic (income)/cost | 1 | 0 | — | — |
| Prior service costs/(credits) at December 31 | \$ (2) | \$ (3) | \$— | \$— |
| Total loss/(gain) recognized in accumulated other comprehensive income/(loss)* | \$312 | \$ 304 | \$ (2) | \$ (1) |

* See note L, "Equity Activity," for the total change in AOCI, and the Combined Statement of Comprehensive Income for the components of net periodic (income)/cost, including the related tax effects, recognized in OCI for the retirement-related benefit plans.

Assumptions Used to Determine Plan Financial Information

The following table presents the assumptions used to measure the net periodic (income)/cost and the year-end benefit obligations.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

| | Defined Benefit Pension Plans | | | Nonpension Postretirement Benefit Plans | | |
|--|----------------------------------|-------|-------|---|-------|-------|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Weighted-average assumptions used to measure net periodic (income)/cost | | | | | | |
| Discount rate | 0.86% | 1.65% | 0.64% | 8.31% | 8.89% | N/A |
| Expected long-term returns on plan assets | 4.03% | 4.62% | 4.01% | 8.20% | 9.00% | N/A |
| Rate of compensation increase | 2.25% | 1.37% | 2.66% | N/A | N/A | N/A |
| Weighted-average assumptions used to measure benefit obligation | | | | | | |
| Discount rate | 0.62% | 0.86% | 1.65% | 8.31% | 8.31% | 8.89% |
| Rate of compensation increase | 2.22% | 2.25% | 1.37% | N/A | N/A | N/A |

N/A — Not applicable

In certain countries, a portfolio of high-quality corporate bonds is used to construct a yield-curve. Cash flows from the Company's expected benefit obligation payments are matched to the yield curve to derive discounts. In other countries where the markets for high-quality long-term bonds are not as well developed, a portfolio of long-term government bonds is used as a base, and a credit spread is added to simulate corporate bond yields at these maturities in the jurisdiction of each plan. This is the benchmark for developing the respective discount rates.

In developing the expected long-term rate of return on assets, the Company considers the long-term expectations for future returns. The use of expected returns may result in pension income that is greater or less than the actual return of those plan assets in a given year. Over time, however, the expected rate of return is expected to approximate the actual long-term results, leading to a pattern of income or loss recognition that more closely matches the pattern of services provided by the employees.

For the nonpension postretirement benefit plans, the Company reviews external data and its own historical trends for healthcare costs to determine the healthcare costs trends. The healthcare cost trend rates have an insignificant effect on plan costs or other benefit obligations due to terms of the plan which limit the Company's obligation to the participants.

Plan Assets

Retirement-related benefit plan assets are recognized and measured at fair value. Because of the inherent uncertainty of valuations, these fair value measurements may not necessarily reflect the amounts the Company could realize in current market transactions.

Investment Policies and Strategies

The investment objectives of the plan assets is to generate returns that will enable the plan to meet its future obligations. The weighted-average target allocation for the defined benefit plans is 33 percent equity securities, 57 percent fixed-income securities, 6 percent real estate and 4 percent other investments, which is consistent with the allocation decisions made by the Company's management. In some countries, a higher percentage allocation to fixed income is required to manage solvency and funding risks. In others, the responsibility for managing the investments typically lies with a board that may include up to 50 percent of members elected by employees and retirees. This can result in slight differences compared with the strategies previously described. Generally, these defined benefit plans do not invest in illiquid assets and their use of derivatives is mainly for currency hedging, interest rate risk management, credit exposure and alternative investment strategies.

The Company's nonpension postretirement benefit plans are underfunded or unfunded. For some plans, the Company maintains a nominal, highly liquid trust fund balance to ensure timely benefit payments.

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

Defined Benefit Plan Assets

The following table presents the Company's defined benefit pension plans' asset classes and their associated fair value at December 31, 2020.

| (\$ in millions) | December 31, 2020 | | | | December 31, 2019 | | | |
|--|-------------------|--------------|------------|--------------|-------------------|--------------|------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Fixed income | | | | | | | | |
| Government and related ⁽¹⁾ | \$— | \$ 18 | \$— | \$ 18 | \$— | \$ 18 | \$— | \$ 18 |
| Corporate bonds | — | 0 | — | 0 | — | 0 | — | 0 |
| Mortgage and asset-backed securities | — | — | — | — | — | 0 | — | 0 |
| Insurance contracts | — | 91 | — | 91 | — | 96 | — | 96 |
| Cash and short-term investments ⁽²⁾ | 1 | — | — | 1 | 1 | — | — | 1 |
| Other mutual funds | 7 | — | — | 7 | 7 | — | — | 7 |
| Subtotal | \$ 8 | \$110 | \$— | \$118 | \$ 7 | \$114 | \$— | \$121 |
| Investments measured at net asset value using the NAV practical expedient ⁽³⁾ | — | — | — | 537 | — | — | — | 490 |
| Other ⁽⁴⁾ | — | — | — | 0 | — | — | — | 0 |
| Fair value of plan assets | \$ 8 | \$110 | \$— | \$654 | \$ 7 | \$114 | \$— | \$612 |

(1) Includes debt issued by national, state and local governments and agencies.

(2) Includes cash, cash equivalents and short-term marketable securities.

(3) Investments measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient, including commingled funds, hedge funds, private equity and real estate partnerships.

(4) Represents net unsettled transactions, relating primarily to purchases and sales of plan assets.

For the year ended December 31, 2020 and 2019, the nonpension postretirement benefit plan assets of \$13 million and \$12 million, respectively, in Mexico, were invested in government debt and corporate bonds, categorized as Level 2 in the fair value hierarchy.

Valuation Techniques

Fixed Income: The fair value of fixed-income securities is typically estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. If available, they are valued using the closing price reported on the major market on which the individual securities are traded.

Cash: Cash includes money market accounts that are valued at their cost-plus interest on a daily basis, which approximates fair value.

Short-term investments represent securities with original maturities of one year or less.

Certain investments are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient. These investments, which include commingled funds, hedge funds, private equity and real estate partnerships, are typically valued using the NAV provided by the administrator of the fund and reviewed by the Company. The NAV is based on the value of the underlying assets owned by the fund, minus liabilities and divided by the number of shares or units outstanding.

Contributions and Direct Benefit Payments

It is the Company's general practice to fund amounts for pensions sufficient to meet the minimum requirements set forth in applicable employee benefits laws and local tax laws. From time to time, the Company contributes additional amounts as it deems appropriate.

The following table presents the contributions made to the defined benefit pension plan, nonpension postretirement benefit plans, multi-employer plans, defined contribution plans and direct payments made in

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

2020 and 2019. The cash contributions to the multi-employer plans represent the annual cost included in the net periodic (income)/cost recognized in the Combined Income Statement.

| (\$ in millions) At December 31, | 2020 | 2019 |
|-------------------------------------|--------------|--------------|
| Defined benefit plans | \$ 4 | \$ 4 |
| Multi-employer plans* | 7 | 9 |
| Defined contribution plans | 194 | 207 |
| Direct payments | 19 | 16 |
| Total | \$225 | \$236 |

* Represents third-party plans.

Defined Benefit Pension Plans

In 2021, the Company is not legally required to make any contributions to the multi-employer plans. However, depending on market conditions, or other factors, the Company may elect to make discretionary contributions to the non-U.S. defined benefit plans during the year.

In 2021, the Company does not expect contributions to its non-U.S. defined benefit and multi-employer plans to be material.

Financial market performance in 2021 could increase the legally mandated minimum contribution in certain countries which require monthly or daily remeasurement of the funded status. The Company could also elect to contribute more than the legally mandated amount based on market conditions or other factors.

Expected Benefit Payments

Defined Benefit Pension Plan and Nonpension Postretirement Benefit Plan Expected Payments

The following table presents the total expected benefit payments to both the defined benefit pension plans and nonpension postretirement benefit plan participants.

| (\$ in millions) | Defined Benefit Pension Plans | NonPension Postretirement Benefit Plans |
|------------------|-------------------------------------|---|
| 2021 | \$ 42 | \$0 |
| 2022 | 43 | 0 |
| 2023 | 44 | 0 |
| 2024 | 48 | 0 |
| 2025 | 52 | 0 |
| 2026 – 2030 | 283 | 4 |

The 2021 expected benefit payments to nonpension postretirement benefit plan participants not covered by the respective plan assets represent a component of compensation and benefits, within current liabilities, in the Combined Balance Sheet.

NOTE O. RELATED PARTY TRANSACTIONS

Related Party Revenue and Purchases

Kyndryl provides various services to IBM including those related to hosting data centers and servicing IBM's information technology infrastructure which are reported as revenue in the Combined Income Statement. Revenues for these services were \$645 million, \$613 million and \$623 million for the years ended December 31, 2020, 2019 and 2018, respectively. The costs related to these services are reported in cost of

**Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83**

services in Kyndryl's Combined Income Statement and were \$509 million, \$484 million and \$492 million, for the years ended December 31, 2020, 2019 and 2018, respectively.

IBM historically provided its branded and related hardware, software and services to Kyndryl for use in the delivery of services arrangements with Kyndryl customers. The cost of the hardware and software was reflected at a price indicative of what the Company would have incurred had it operated on a stand-alone basis. These costs and their associated depreciation and amortization were recorded as cost of services in the Company's Combined Income Statement in the amounts of \$3,227 million, \$3,094 million and \$3,619 million, for the years ended December 31, 2020, 2019 and 2018, respectively. The capital expenditures for purchases of IBM hardware were reflected as payments for property and equipment within the investing section of the Combined Statement of Cash Flows in the amounts of \$504 million, \$526 million and \$650 million, for the years ended December 31, 2020, 2019 and 2018, respectively.

Allocation of Corporate Expenses

The Combined Income Statement, Combined Statement of Comprehensive Income and Combined Statement of Cash Flows include an allocation of general corporate expenses from IBM. The financial information in these combined financial statements does not necessarily include all of the expenses that would have been incurred by Kyndryl had it been a separate, standalone company. It is not practicable to estimate actual costs that would have been incurred had Kyndryl been a standalone company during the periods presented. The management of Kyndryl considers these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to the Company. Allocations for management costs and corporate support services provided to Kyndryl for the years ended December 31, 2020, 2019, and 2018 totaled \$1,287 million, \$1,230 million and \$1,237 million, respectively. These amounts include costs for corporate functions including, but not limited to, senior management, legal, human resources, finance and accounting, treasury, IT and other shared services. All such amounts have been deemed to have been incurred and settled by Kyndryl in the period in which the costs were recorded and are included in the Net Parent investment. These costs were allocated based on direct usage as applicable, with the remainder allocated on a pro-rata basis of gross profit, headcount, asset ownership or other measures determined to be reasonable.

| (\$ in millions) For the year ended December 31: | 2020 | 2019 | 2018 |
|---|-----------------------|-----------------------|-----------------------|
| Selling, general and administrative | \$1,216 | \$1,178 | \$1,206 |
| Research, development and engineering | 4 | 7 | 0 |
| Other (income) and expense | 4 | (31) | (53) |
| Interest expense | 63 | 76 | 85 |
| Total expense and other (income) | <u>\$1,287</u> | <u>\$1,230</u> | <u>\$1,237</u> |

Cash Management and Financing

The Company participates in IBM's centralized cash management and financing programs. Disbursements are made through centralized accounts payable systems, which are operated by IBM. Cash receipts are transferred to centralized accounts, which are also maintained by IBM. As cash is received and disbursed by IBM, it is accounted for by Kyndryl through Net Parent investment. Short and long-term debt is financed by IBM, and financing decisions for wholly and majority owned subsidiaries are determined by IBM. See note A, "Significant Accounting Policies," for additional information. Kyndryl's cash that was not included in the centralized cash management and financing programs is classified as Cash and cash equivalents on the Combined Balance Sheet.

Net Parent Investment

Related party transactions between Kyndryl and IBM have been included within Net Parent investment in the Combined Balance Sheet in the historical periods presented as these related party transactions were not settled in cash. Net Parent investment in the Combined Balance Sheet and Combined Statement of Changes in Equity represents IBM's historical investment in Kyndryl, the net effect of transactions with, and allocations from IBM, and Kyndryl's accumulated earnings. Net transfers from IBM are included within

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

Net Parent investment. The components of Net transfers from IBM and the reconciliation to the corresponding amount presented on the Combined Statement of Cash Flows were as follows:

| (\$ in millions) | 2020 | 2019 | 2018 |
|--|---------------|---------------|-----------------|
| For the year ended December 31: | | | |
| Cash pooling and general financing activities/other | \$(4,165) | \$(4,390) | \$(4,281) |
| Allocation of IBM's corporate expenses/other | 1,668 | 1,610 | 1,713 |
| Related party sales and purchases | 2,991 | 2,944 | 3,563 |
| Related party intangible assets fee | 80 | 38 | — |
| Income taxes | 297 | 397 | 310 |
| Total Net transfers from Parent per Combined Statement of Equity | <u>\$ 872</u> | <u>\$ 598</u> | <u>\$ 1,304</u> |
| Income taxes | (297) | (397) | (310) |
| Allocation of IBM's stock based compensation | (64) | (51) | (57) |
| Other | (133) | (132) | (146) |
| Total Net transfers from Parent per Combined Statement of Cash Flows | <u>\$ 377</u> | <u>\$ 18</u> | <u>\$ 791</u> |

Assignment of Receivables

A portion of Kyndryl's receivables with extended payment terms have historically been assigned to IBM's Global Financing business. These receivables were not recognized on the Company's Combined Balance Sheet. The gross amounts of Kyndryl receivables assigned to IBM Global Financing were \$3,077 million, \$3,006 million and \$2,819 million for the years ended December 31, 2020, 2019 and 2018, respectively. The fees and the net gains and losses associated with the assignment of receivables were not material for any of the periods presented. Refer to note A, "Significant Accounting Policies," for more information on the transfer of financial assets.

Upon completion of the spin off, there is no guarantee that the Company will be able to enter into a similar financing arrangement with a third-party, with similar volumes to the amounts historically financed by IBM. This may result in an increase in accounts receivable balances from those amounts historically presented within the Combined Balance Sheets.

Acquired Intangible Assets

Within the historical periods presented, the Company has been charged a fee for the use of certain acquired intangible assets by IBM for acquisitions which were not specific to Kyndryl. The amounts reflected within cost of services on the Combined Income Statement for these fees were \$31 million and \$15 million, for the years ended December 31, 2020 and 2019 respectively. The amounts for these fees reflected within SG&A expense within the Combined Income Statement were \$49 million and \$23 million, for the years ended December 31, 2020 and 2019 respectively. No fees were charged to Kyndryl for the year ended December 31, 2018.

NOTE P. SUBSEQUENT EVENTS

The combined financial statements of Kyndryl are derived from the Consolidated Financial Statements of IBM, which issued its financial statements for the year ended December 31, 2020 on February 23, 2021. Accordingly, the Company has evaluated transactions or other events for consideration as recognized subsequent events in the annual financial statements through February 23, 2021. Additionally, Kyndryl has evaluated transactions and other events that occurred through June 22, 2021, the date these combined financial statements were issued, for purposes of disclosure of unrecognized subsequent events.

Confidential Treatment Requested by Kyndryl Holdings, LLC
Pursuant to 17 C.F.R. Section 200.83

SCHEDULE II

KYNDRYL
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
For the Years Ended December 31:
(Dollars in Millions)

| Description | Balance at Beginning of Period | Additions / (Releases) | Write-offs | Other* | Balance at End of Period |
|-------------------------------------|--------------------------------------|---------------------------|------------|--------|--------------------------------|
| Allowance For Credit Losses: | | | | | |
| 2020 | \$ 82 | \$ 25 | \$ (7) | \$(9) | \$ 91 |
| 2019 | \$111 | \$ 51 | \$ (78) | \$(3) | \$ 82 |
| 2018 | \$104 | \$ 16 | \$ (2) | \$(6) | \$111 |
| Revenue Based Provisions: | | | | | |
| 2020 | \$110 | \$167 | \$(141) | \$ 3 | \$140 |
| 2019 | \$113 | \$103 | \$(108) | \$ 2 | \$110 |
| 2018 | \$ 93 | \$219 | \$(198) | \$(1) | \$113 |

* Primarily represents translation adjustments and reclassifications.

Additions/(Releases) to the Allowance For Credit Losses represent changes in estimates of unrecoverable amounts in receivables and are recorded to expense accounts. Amounts are written-off when they are deemed unrecoverable by the Company. Additions/(Releases) to Revenue Based Provisions represent changes in estimated reductions to revenue, primarily as a result of revenue-related programs, including customer rebates. Write-offs for Revenue Based Provisions represent reductions in the provision due to amounts remitted to customers. Other primarily comprises currency translation adjustments. See note E, "Taxes," to the combined financial statements for further details about the Company's income tax valuation allowances.